DOES FARM FINANCING FACE FUNDAMENTAL CHANGE OR CURRENT CREDIT CRISIS?

(Part 2)

ORIGINAL

COMPLETED

HEARING

BEFORE A

SUBCOMMITTEE OF THE COMMITTEE ON GOVERNMENT OPERATIONS HOUSE OF REPRESENTATIVES

NINETY-NINTH CONGRESS

SECOND SESSION

APRIL 10, 1986

Printed for the use of the Committee on Government Operations

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CONTENTS

	Page
Hearing held on April 10, 1986	1
Statement of:	
Clark, Vance L., Administrator, Farmers Home Administration, U.S. Department of Agriculture	3
English, Hon. Glenn, a Representative in Congress from the State of Oklahoma, and chairman, Government Information, Justice, and Agriculture Subcommittee: Opening statement	1
Letters, statements, etc., submitted for the record by:	
Clark, Vance L., Administrator, Farmers Home Administration, U.S. Department of Agriculture:	
Information concerning farm loans	26
List of States visited	25
Prepared statement	7–16
Submissions to additional subcommittee questions	32–58
APPENDIX	
Congressional staff report entitled "Racial Discrimination in Farmers Home Loan Programs"	61

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DOES FARM FINANCING FACE FUNDAMENTAL CHANGE OR CURRENT CREDIT CRISIS? (Part 2)

THURSDAY, APRIL 10, 1986

HOUSE OF REPRESENTATIVES,
GOVERNMENT INFORMATION, JUSTICE,
AND AGRICULTURE SUBCOMMITTEE
OF THE COMMITTEE ON GOVERNMENT OPERATIONS,
Washington, DC.

The subcommittee met, pursuant to notice, at 9:40 a.m., in room 2247, Rayburn House Office Building, Hon. Glenn English (chairman of the subcommittee) presiding.

Present: Representatives Glenn English, Edolphus Towns, Jim Lightfoot, and Joseph J. DioGuardi.

Also present: William T. Cherry, professional staff member; Euphon Metzger, clerk; and John J. Parisi, minority professional staff, Committee on Government Operations.

OPENING STATEMENT OF CHAIRMAN ENGLISH

Mr. ENGLISH. The hearing will come to order.

During the past year, the subcommittee has been investigating how the Farmers Home Administration and the Farm Credit Administration have been meeting their responsibilities in a period of continuous crisis, and I must say that what we have seen has often been disappointing. Witnesses have told us that farmers are sometimes frightened of the Farmers Home county supervisors. Witnesses have told us that Farmers Home loans often come so late that farmers can't do a good job of producing. Witnesses have told us that Farmers Home is guilty of racial discrimination. Witnesses have told us that it sometimes takes outside pressure to make the Farmers Home county employees follow regulations.

These are just some of the disappointing things that we have been told or have seen from studies. Things may change for Farmers Home. Last year's farm bill included sections to remedy some of these ills, provided Farmers Home follows the requirements.

Also, during the past year Farmers Home has gained a new Administrator, a person with years of experience in a large financial organization. Today's hearing was called to let this new Administrator tell us in detail how he will go about correcting the evils of the past. We want to hear how he will implement these new provisions of the law.

I regret that I will not be able to chair this hearing from beginning to end. Unfortunately, the USDA implemented a new dairy

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herd reduction program last week and pretty much ignored the safeguards that were written into the 1985 farm bill and threw the cattle market into a tailspin. The Livestock and Dairy Subcommittee has a hearing later this morning to see what can be done to put things right, and I will be joining that effort.

I will stay with this subcommittee as long as possible and then I will ask Mr. Towns to chair the subcommittee in my absence.

Mr. Lightfoot, do you have some comments you would like to make this morning?

Mr. LIGHTFOOT. Thank you, Mr. Chairman.

There is really very little to say or to add other than we are looking forward to the hearing this morning. I understand basically we are going to talk about discrimination against black farmers and the implementation of the farm bill provisions.

Farmers Home has moved into a very critical support category in our part of the country as a lender of last resort. We have a lot of people falling into that category now due to a lot of circumstances we have been faced with. We want to work with Mr. Clark and FmHA to see that the intent of the farm bill is carried out and if there is anything we can do on our end to help this thing work. I think it is necessary we do that together. At the same time, we need to identify where the problems are before we can be of any value. So we hope that that will be done this morning as well.

With that, I think I will also mention that I am going to have to leave about an hour from now for another commitment but will try to get back to hear all the testimony.

Thank you, Mr. Chairman.

Mr. ENGLISH. Mr. Towns, do you have any comments that you would care to make this morning?

Mr. TOWNS. Thank you very much, Mr. Chairman.

I'm pleased that you agreed to hold this hearing as a part of our continuing series of hearings on the farm loan crisis. I am particularly looking forward to today's testimony as it relates to concerns about the discrimination in the Farmers Home Administration system.

We have heard from numerous witnesses that severe problems exist in this area, and I'm glad we will hear from the Administration on this issue today.

Again, Mr. Chairman, let me thank you for following through on this series, for scheduling this hearing so soon.

Mr. ENGLISH. Thank you very much, Mr. Towns. I appreciate that.

Today's witness is the Administrator of the Farmers Home Administration, Mr. Vance Clark. He is a newcomer to Washington and a newcomer to Government, but he is certainly not a newcomer to the business of making loans to farmers and managing a network of offices.

Mr. Clark retired in 1983 as a regional senior vice president of Bank of America. He spent 42 years in the business. His responsibility at the end was the agriculture-rich San Joaquin Valley of California, where he supervised 140 branches and 3,200 employees. In his new job, Mr. Clark will supervise 1,900 or 2,000 offices, and 10,000-plus employees.

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So Mr. Clark, we want to welcome you here today and appreciate your coming before us. We are looking forward to your testimony, so please begin.

STATEMENT OF VANCE L. CLARK, ADMINISTRATOR, FARMERS HOME ADMINISTRATION, U.S. DEPARTMENT OF AGRICULTURE

Mr. CLARK. Thank you, Mr. Chairman and members of the committee. I really do appreciate the opportunity to be here today and to discuss some of your concerns, indeed some of our mutual concerns, about credit availability for black farmers and the progress we at Farmers Home are making, I think, in implementing certain provisions of the Food Security Act of 1985.

As you will recall, former Secretary Block recognized the problems of black and other minority farmers and appointed a task force to look into the reasons for the continuing fall in their numbers over the years. The task force reported, among other things, that the steady decline in the number of black-operated farms occurred in places with the weakest economic base; where farmers could least afford mechanized farming, could not live on farm earnings, and could not supplement farm earnings with nonfarm, off-farm income.

Black farmers were older than their white counterparts. Farm earnings, usually under $20,000 from gross sales, do not provide an adequate family income.

Mr. Chairman, I bring these points up to emphasize that there is no single reason why black farmers are declining in numbers, that there is no single or easy solution to their problems today. Indeed, most farmers today are suffering from lack of profits through no fault of their own, and there are no simple answers to those problems.

The staff report that accompanied your letter to Acting Secretary Naylor scheduling this hearing mentioned three counties where a sample study had been conducted by the staff: Holmes County, MI; Bladen County, NC; and Richmond County, VA. To go beyond that sampling, we examined the operating loan activity in each county for fiscal year 1985 to give us a look at a recent, specific period of time covering an entire crop year.

[The staff report is printed in the appendix.]

Mr. CLARK. What we learned was actually a reminder that numbers can be deceptive when considered in isolation and when arbitrary values are assigned to them. We also can see the points made by the task force that minority farmers tend to be more marginal financially than others.

Let's look at the first, Holmes County. Operating loan applications there last year totaled 106—70 from white applicants and 36 from minority applicants. Of those applications, 61, or 87 percent, were approved for white borrowers; 24, or 66 percent, were approved for minority borrowers.

The average time between application and loan approval was 45 days for white borrowers, 35 days for minority borrowers. The average time between loan approval and check delivery was 25 days for white borrowers, 35 days for minority borrowers. Supervised bank

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accounts were set up for 53 percent of the white borrowers and 56 percent of the minority borrowers.

Seventy-five percent of the white borrowers had their applications in by the end of February; 80 percent of the minority borrowers had applied by that time. Twelve percent of the white borrowers received limited resource loans, and 37 percent of the minority borrowers received limited resource loans.

Looking at Bladen County, of a total of 131 applications, 94 were from white, 37 were from the minority applicants. The approval rate was 73 to 78 percent—for white; 26 of those were approved for minority applicants, or 70 percent. The average time between application and loan approval was 46 days for white borrowers, 52 days for minority borrowers. The average time between loan approval and check delivery was 22 days for white borrowers, 26 days for minority ones.

Supervised bank accounts total 81 percent for white, 90 percent for minority borrowers. Nineteen percent of the white borrowers received limited resource loans; 50 percent of the minority borrowers received limited resource loans.

That leaves Richmond County. Only two operating loan applications were received there last year. Both were from white applicants, both were approved. There have been no operating loan applications from minority applicants there for some time. In fact, the farm loan volume in that area is very small for that office.

That county office serves four counties, and two operating loan applications from minority borrowers last year were the only ones in recent years. They were from counties other than Richmond and both were approved.

In each of the three counties, the Farmers Home county committee has minority representation. All of the office staffs are integrated. Holmes and Bladen Counties have white supervisors and minority assistant supervisors. Richmond county—and the three other counties served by that office—has a minority supervisor.

If you examine the numbers I have cited closely, you find there is no consistent pattern favoring any racial group. There may appear to be such favoritisms at one point or another, but they fade away when you go through the pattern of the lending activity there.

The clearest message in this, to me, at least, is that each loan docket is a composite of its individual factors, not a reflection of treatment based on an applicant's race. Approval or rejection of an application is based on circumstances relating only to that particular case.

Let me cite a few examples taken from case files on a random basis. In one county, a vacancy existed on the committee, and one committee member was seriously ill when a farmer submitted an application and a letter along with that application refusing credit from a local bank. Rather than require that applicant to wait an indeterminate period of time for a decision on eligibility, the county supervisor on his own found another bank willing to make the loan.

That farmer ended up with operating funds although his file ended up in that "rejected or withdrawn" category that we identify.

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In another case, a farmer applied for a loan to purchase and operate three parcels of land held by the area's land bank. The land bank, however, rejected the bid as too low. The farmer did not pursue the loan, and it, too, became a casualty of the "rejected or withdrawn" category.

In a third case, a man who worked as a brick mason inherited 70 acres of land and applied for a loan to buy a tractor. The loan was rejected because he had no experience and no training in farming.

There are other such cases, but these, I think, will suffice to illustrate the point that the factors relating to a loan application determine the outcome and the credit decision that is made.

Mr. Chairman, we can find no basis for the extremely general allegations in the staff report of racial discrimination. We will, and we do, investigate any complaint by an applicant or a borrower that he or she has been discriminated against. I, as Administrator, will not tolerate such acts, and Farmers Home employees know my position, and those employees are well aware of their responsibilities in this regard.

We do have a complaint of discrimination from Bladen County which is being investigated. My preliminary information is that the person involved is not a victim of discrimination but of unfortunate economic conditions compounded by his inability to produce the results he would like to see in his farming operations.

We have made 13 loans to that individual over the years, have rescheduled 11 times over all those years, consolidated his debts twice, and approved limited resource rates 6 times over those years. Three of those loans have been repaid, but very little has been paid on the others.

I can assure you that the investigation will be complete and accurate, and any action that may be called for will, indeed, be taken.

You ask about certain sections of the Food Security Act, which I would like to report on individually and briefly. Section 1312, the section having to do with prompt approval of loans and loan guarantees, requires action on applications within certain time limits as we process them. Instructions are being revised and will be issued to our employees in just a few days, and authorization has been sent out for the hiring of approximately 1,200 temporary employees across the Nation, if needed, to meet the spring lending demand. Contracting for additional assistance is also being used very extensively throughout the Nation as well.

Section 1313 having to do with appeals sets deadlines for notification requirements for appeals and requires a study of the appeals process. Requirements are similar to practices that already existed at Farmers Home. Regulations implementing some of those changes have been published; others are in progress. Preliminary steps have been taken for the study, which is to be completed by the 1st of September.

Section 1314 you have asked about has to do with the disposition and leasing of farmland. This spells out the procedure for handling farm property that comes into Farmers Home Administration possession and establishes certain priorities for leasing to the former owners. This, too, parallels in a number of respects the existing practice of our agency. Required regulation changes have been

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drafted and are currently in final clearance and in preparation for publication.

As you may know, we have followed a policy for more than 3 years of not putting inventory property on the market if that action would cause an adverse effect on local land values in the area. The additional authority contained in section 1314, I think, will strengthen our ability to properly manage that inventory property.

Section 1320 that you asked about, interest rate reduction program, provides for a buy down on interest rates for both lenders and Farmers Home to help eligible borrowers show a positive cashflow on guaranteed loans. That regulation was published February 25. That program is in the field and is operating.

Section 1325 having to do with the prohibition of use of coordinated financial statements. We have stopped use of that farm planning and analysis system known as the coordinated financial statement. It is no longer in use.

Section 1328 having to do with the continuation of small farmer training and technical assistance program. That program is continuing through contracts with universities in North Carolina, Georgia, Alabama, and a nonprofit organization to provide specialized training for minority farmers.

We are optimistic that the results will be positive, and we anticipate a possible expansion of that assistance if those expectations are met.

Section 1329, the section having to do with the study of the farm and home plan that has been in use at our agency for so long and has been completed through a contract with Peat, Marwick & Mitchell Co. Results have been forwarded to the Congress. I will tell you very briefly that the results show the farm and home plan to be very much out of date, totally inadequate as a farm planning and analysis system.

In conjunction with that study, we have been working with the Farm Credit System and the banking industry to see if we can come up with an existing system with enough appeal for all of us to adopt. We think in that way, if indeed we do have universal forms, that our borrowers can graduate to private credit and they can continue using the same farm planning and analysis system that has become familiar to them as they go down that line.

In summation, Mr. Chairman, I would again emphasize that we will at Farmers Home continue to be alert for any signs of unfair or discriminatory practices anywhere in our agency. I think we also intend to carry out all the mandates of the Food Security Act in as expeditious manner as possible.

That completes my statement, and I would be happy to respond to your questions.

[The prepared statement of Mr. Clark follows:]

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TESTIMONY OF

VANCE L. CLARK, ADMINISTRATOR

FARMERS HOME ADMINISTRATION

UNITED STATES DEPARTMENT OF AGRICULTURE

Before the

SUBCOMMITTEE ON GOVERNMENT INFORMATION, JUSTICE, AND AGRICULTURE

HOUSE COMMITTEE ON GOVERNMENT OPERATIONS

April 10, 1986

Mr. Chairman and Members of the Committee, I appreciate the opportunity to be here today to discuss some of your concerns about credit availability for black farmers and the progress we at Farmers Home are making in implementing certain provisions of the Food Security Act of 1985.

As you will recall, former Secretary Block recognized the problems of black and other minority farmers and appointed a task force to look into the reasons for the continuing fall in their numbers over the years. The task force reported, among other things, that:

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-- the steady decline in the number of black-operated farms occurred in places with the weakest economic base; where farmers could least afford mechanized farming, could not live on farm earnings, and could not supplement farm earnings with nonfarm income;

-- black farmers were older than their white counterparts;

-- farm earnings, usually under $20,000 from gross sales, do not provide an adequate family income.

Mr. Chairman, I bring these points up to emphasize that there is no single reason why black farmers are declining in numbers, and that there is no single or easy solution to their problems today. Indeed, most farmers today are suffering from a lack of profits through no fault of their own, and there are no simple answers to those problems.

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To go beyond that sampling, we examined the operating loan activity in each county for the fiscal year 1985 to give us a look at a recent, specific period of time covering an entire crop year. What we learned was actually a reminder that numbers can be deceptive when considered in isolation and when arbitrary values are assigned to them. We also can see the point made by the task force that minority farmers tend to be more marginal financially than others.

Let's take a look first at Holmes County. Operating loan applications there last year totaled 106: 70 from white applicants and 36 from minority applicants. Of those applications, 61, or 87 percent, were approved for white borrowers and 24, or 66 percent, were approved for minority borrowers.

The average time between application and loan approval was 45 days for white borrowers and 35 days for minority ones. The average time between loan approval and check delivery was 25 days for white and 35 days for minority borrowers. Supervised bank accounts were set up for 53 percent of white borrowers and 56 percent of minority ones. Seventy-five percent of white borrowers had their applications in by the end of February; 80 percent of minority borrowers applied by that time.

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The clearest message in this, to me, at least, is that each loan docket is a composite of its individual factors, not a reflection of treatment based on an applicant's race. Approval or rejection of an application is based on circumstances relating only to that case. Let me cite a few examples, taken from case files on a random basis.

-- In one county, a vacancy existed on the committee, and one committee member was seriously ill when a farmer submitted an application and a letter refusing credit from the local bank. Rather than require the applicant to wait an indeterminate period for a decision on eligibility, the county supervisor found another bank willing to make the loan. The farmer ended up with operating funds although his file ended up in the "rejected or withdrawn" category.

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I can assure you that the investigation will be complete and accurate, and any action that may be called for will be taken.

You asked about certain sections of the Food Security Act, which I will now report on individually.

Section 1312. Prompt Approval of Loans and Loan Guarantees. This section requires action on applications within certain time limits. Instructions are being revised and will be issued to our employees in a few days, and authorization has been sent out for the hiring of approximately 1,200 temporary employees, if needed to meet the spring lending demand. Contracting for additional assistance is also being used extensively.

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Section 1313. Appeals. This sets deadlines for notification requirements for appeals and requires a study of the appeals process. The requirements are similar to practices that already existed at Farmers Home. Regulations implementing some of the changes have been published, and others are in progress. Preliminary steps have been taken for the study, which is to be completed by September 1.

Section 1314. Disposition and Leasing of Farmland. This spells out the procedure for handling farm property that comes into Farmers Home Administration possession and establishes certain priorities for leasing to the former owners. This, too, parallels in a number of respects the existing practice of the agency. The required regulation changes have been drafted and are currently in final clearance in preparation for publication.

As you may know, we have followed a policy for more than three years of not putting inventory property on the market if doing so would adversely affect local land values. The additional authority contained in Section 1314 will strengthen our ability to properly manage that property.

Section 1320. Interest Rate Reduction Program. This provides for a "buy down" on interest rates by both lenders and Farmers Home to help eligible borrowers show a positive cash flow on guaranteed loan. The regulations were published February 25, and the program is in operation.

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Section 1325. Prohibiting Coordinated Financial Statement. We have stopped use of the farm planning and analysis system known as the Coordinated Financial Statement.

Section 1328. Continuation of Small Farmer Training and Technical Assistance Program. This program is continuing, through contracts with universities in North Carolina, Georgia and Alabama and a nonprofit organization to provide specialized training for minority farmers. We are optimistic that the results will be positive, and we anticipate a possible expansion of that assistance if those expectations are met.

Section 1329. Study of Farm and Home Plan. This has been completed, though a contract with Peat Marwick Mitchell & Co., and the results have been forwarded to the Congress. Briefly, the results showed the Farm and Home Plan to be very much out of date and totally inadequate as a farm planning and analysis system.

In conjunction with the study, we have been working with the Farm Credit System and the banking industry to see if we can find an existing system with enough appeal for us all to adopt. In that way, when our borrowers graduate to private credit, they could continue using the farm planning and analysis system that had become familiar to them.

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In summation, Mr. Chairman, let me re-emphasize that we will continue to be alert for any signs of unfair or discriminatory practices anywhere in the Agency. We also intend to carry out all the mandates of the Food Security Act in as expeditious a manner as possible.

That completes my statement. I would be happy to answer any questions.

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Mr. ENGLISH. Thank you very much, Mr. Clark.

Two years ago, this subcommittee recommended that Farmers Home review the decision to require the coordinated financial statement and conduct a thorough study on how to best obtain financial information from their own applicants and recommend the study include the possibility of using computerized systems. The same year Farmers Home was directed by the Appropriations Committee to conduct a similar study on the use of forms.

My first question is, did the Farmers Home conduct such a study in 1984-85?

Mr. CLARK. Sorry, Mr. Chairman, I'm not aware of that. Having been aboard only about 7 or 8 months, I'm not aware of that.

Mr. ENGLISH. Well, you can ask your staff behind you whether they did or did not.

Mr. CLARK. Sorry, we do not know that.

Mr. ENGLISH. Even though you were directed by the Appropriations Committee, directed by this committee, ignored that and did not do it?

Mr. CLARK. Well, you are beating on the wrong guy, I was not around at that time. If I was, I am sure I would have done it.

Mr. ENGLISH. I beat on the agency. I do not care who is in charge of it. You can change horses every 6 months and I am not going to—you know, we do not put up with that business of just because you were not here.

The Administration was here and the order was given and the same agency, whenever you take it on, you take on all the problems it has, Mr. Clark.

Mr. CLARK. Well, I will tell you, we are moving down that road, I think, very fast, with the new system. I have to agree with you. Looking at the CFS, to me, it was rather intimidating. It is a very involved process, but very needed.

The basic requirements of that system were very much needed. You need cash-flow, you need financial statements, you need an inventory list. And we hope to have a palatable system in place very soon, to replace it.

Mr. ENGLISH. As you have stated it now, the study has been done and it has been transmitted to the Agriculture Committee, and you indicate that you are working with other lending institutions to find a suitable replacement for the farm and home plan.

Do you plan to follow the recommendation of this subcommittee, that the systems under consideration be field tested by representative samples of borrowers before being adopted for total use?

Mr. CLARK. Absolutely. I think that is a very good idea, a good approach. We ought to try it on for size.

Mr. ENGLISH. I am happy to hear that.

Farmers Home is also in the process of installing a nationwide computer system. When do you expect that that system is going to be operational?

Mr. CLARK. We have about 1,200 of those units being delivered this year, the balance to all of our field by the end of calendar year 1987. That process is going very well. The training has begun. The original testing has been done. The very things that you bring out about a computerized approach to a financial statement analysis, cash-flows and so on, is part of our software planning for that

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system and we think it is going to be a real timesaver and a real assist to our borrowers.

They can sit down and do these things in front of a tube that will, I think, answer some questions very quickly. So we are looking forward to it and it is going forward.

Mr. ENGLISH. What functions do you expect the system to handle?

Mr. CLARK. Well, it is called a multifunction work station and the very basic requirements of a field office, such as word processing, certainly is important to us. Communication with our borrowers, very quickly. But we can book loans through that system, direct to our finance office in St. Louis. We can retrieve data on a borrower who comes into our office and wants to know the status of his account.

We can bring that account up on that screen, talk very intelligently about very current information. Just a lot of the analysis information on financial statements and applications that I am talking about as well.

So it is really going to be a first giant step for us into automation.

Mr. ENGLISH. Your testimony states that you rescinded all instructions to county supervisors regarding the use of the coordinated financial statement. Suppose a prospective borrower offers a coordinated financial statement with his application. Is a county supervisor authorized to accept a CFS in lieu of the farm and home plan?

Mr. CLARK. Yes; if a borrower insists on using that, if he wants to use it—and we have some out there that want to use it—we have told our people certainly, if they want to use it, let us take it.

Mr. ENGLISH. Mr. Lightfoot.

Mr. LIGHTFOOT. Thank you, Mr. Chairman.

Mr. Clark, one of the items that I guess we have all been concerned with—particularly after going through last spring—was the availability of enough people in the various FmHA offices to handle the workload that is coming down. You recently announced that you are going to hire 1,000 temporary workers. How soon will those people be hired, trained, and ready to go out in the field?

Mr. CLARK. Well, I think we would find most of those are aboard right now. Each of our States, indeed each of our counties, have retired Farmers Home people, other people who are trained already in the field, just waiting for a seasonal call. So I think most of that has been done.

A lot of our offices who do not have that reserve out there of qualified and trained people, would rather have overtime. So we have allocated over $2 million to our offices as well for overtime. So I think we have done what we can do to give them the tools to deliver the products that we have out there.

I might say it is a very cyclical thing, as you might imagine. This month is our really peak month for crop applications. Every organization goes through this. The private sector goes through it, too, on a cyclical basis. So we have to learn to live with those peaks and valleys in our demands.

Mr. LIGHTFOOT. You have also been doing some contracting out, for lack of a better description. In some of those areas, where we

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have seen it happen, it appears to be quite successful, although I realize you are fighting a bit of a cost problem.

I think you are paying something like $25 an hour and most banks will pay $50. Are you satisfied with the work those people have achieved? And if so, do you have any plans to try and expand that area?

Mr. CLARK. In reviewing last and past year's practices, I was not satisfied with what I saw. I do not think we were getting our value for the dollars we put out, even at $25 an hour, and I am not sure that is the figure. I would agree that it is probably less than the going rate.

I was not pleased with that. I think our controls were rather loose, we were not getting good contractors to do those things for us. I guess they keep referring to beltway bandits, and I think we had a few in our organization last year.

We very carefully restructured that this year. We have allocated our contract dollars to each of the States. Those State directors are responsible wholly and completely for the expenditure of those dollars and for the values received. They are monitoring it very closely and I think we are going to do a much better job this year than we have ever done.

Mr. LIGHTFOOT. With reference to the guaranteed loan plan and the interest buy-down program—I guess maybe we can talk about these in the same breath, to some degree.

In the middle of March, we finally got the first loan in the Nation approved—it happened to be in our State—on the interest buy down. And it appears, from talking with lenders, that the big problem is not so much with the way your program is put together by itself, but what it imposes upon them as they have to take those write downs against their capital and so on.

Is there any effort that you can put in place, or that anyone can put on, to get some type of, say, a 5- to 7-year amortization system set up for these country banks? I think then they would grab that program and run with it. As it has been, really not much is happening. And I do not think it will.

Mr. CLARK. Well, Congress passed, as a 3-year program, $490 million over a 3-year period for those buy downs. You are right, we booked the first one in Iowa a few days ago. We have one in Wisconsin and one in Arkansas going.

It is a 3-year program. We did not put those years on it, Congress did. Many banks are reluctant to embrace that program because, indeed, it requires a 2-percent drop, maximum, on their part. Not maximum—we will match only 2 percent, that is our maximum.

A lot of banks do not want to take that write down. They do not want to take that hit in their earnings. Indeed, a lot of banks do not want to take an 8- to 10-percent risk in booking a guaranteed loan. And my standard sermon is, again you know, bankers, our whole economy is based on agriculture. You cannot turn your backs on the American farmer. If that American farmer fails in your area, the economy fails in your area, your credit card loans, your automobile loans, your single-family houses do not mean toot. You have got to have a basis of a good economy.

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So that is my sales pitch and I am having trouble. Many States are really running with that program. A lot are not. They just do not want to take that chance.

When you review history, that is how the Farm Credit System was born because in those early days banks did the same thing, they turned their backs on agriculture, would not finance it. Farmers had to have a source of finance and the Farm Credit System was born. And of course, the Farm Resettlement Administration, the early roots of Farmers Home Administration, came into play, as well.

In too many States, Farmers Home is playing too big a role. In a Southern State today, 55 percent of the agriculture credits last year in that State were Farmers Home. We cannot continue that. That has to be shored up, if you will, with the Farm Credit System and other banks.

It is a problem.

Mr. LIGHTFOOT. I think that one of the points we are going to discuss today is about minority farmers. The USDA task force you referred to earlier reported that there were several reasons for the falloff in the number of minority farmers. If I am interpreting it correctly, it boils down to basically economics, that they cannot make a living and they are trying to do other things. So if that perception is correct, what can Farmers Home do, as a lender of last resort, to help those minority farmers who want to stay out there and be farmers?

Mr. CLARK. Well, if there is any criticism of Farmers Home, it is because we have gone too far with too much with too many. Really, indeed, we have gone that extra mile over and over again and we have allowed many of our borrowers, a lot of minority borrowers, to get in an untenable position where they can never, never recover from the debt load that they have.

I have no solution to that. Indeed, we probably should have said no 3, 4, 5, 10 years ago, not this year. But now is kind of a year of reckoning, if you will, where we need to say no more, we cannot go any further. Will the American taxpayers stand by and let us pump billions and billions of dollars down those roads that have not solved any of our problems for the past 50 years.

Of course, I hear all the other arguments about the commodity prices and I agree with that. But we have some terrible examples out there. I saw one this morning on television, a borrower $80,000 in debt to us, or more than that, $103,000 in debt, and he has 8½ acres of land. You shake your head. How can that be? We have even worse examples of that, where we have been too lenient, too compassionate.

Now I guess we have to get our fiscal house in order and need to clean up our portfolio in a way that is least destructive to the American agricultural community. And we are trying hard to do that. With all of the other things in the farm bill, including the Homestead Act, that is going to allow, I think, a major relief in dignity as some of those people, including minorities, leave the farms.

We are working hard at it.

Mr. LIGHTFOOT. Would it be a fair statement to say that——

Mr. TOWNS. Would the gentleman yield?

Mr. LIGHTFOOT. Yes, sir.

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Mr. TOWNS. I would like to ask a question.

The one that you described that was on television, was that a minority?

Mr. CLARK. Yes; it was.

Mr. LIGHTFOOT. I guess if my observation is correct, then what you view the role of FmHA to be is the role of the lender, rather than as a grantor, and this is money that should be paid back and therefore we have to have all the necessary things in place to make a cash-flow and so on. Is that a fair statement?

Mr. CLARK. That is true. We are yet the lender of last resort but I keep saying, you know, we need to be a prudent lender of last resort. It is not a grant program, it is a lending program. When you make loans, you expect to pay back. I think our borrowers need to respect that commitment as well.

I think over the years there has been a paternalistic attitude, as I look back over the history of Farmers Home, where our borrowers have not felt that way. They feel there is a right, if you will, a legal right to carry those loans on and on and on to infinity.

Mr. LIGHTFOOT. One of the things that has really been a problem in our area—this does not necessarily relate to minorities, I guess it relates to anybody that is involved with the Administration.

Secretary Lyng was in my district last Thursday and we held a series of meetings for farmers and bankers and so on. And it was what we have been hearing all the way along, it was brought up in that hearing as well, and that basically being that people have made applications, they have gone through the paperwork, the loan has been approved. But the county officers say, well, we are sorry but there is no money. We cannot write you a check. Some of these loan approvals go back clear into December.

The Secretary continued to respond to that, well, I do not understand that. The money is there. We have adequate funds to handle it. Could you shed any light on that? Have we got a bottleneck at the State level? I know we have got some county people who are somewhat overenthused about their position and the power that they yield. And unfortunately, that reflects poorly on some very good people who put in many, many hours and work hard.

There is one lady in our district who probably works 14 hours every day and does a super job.

But the bottom line is that we have people and their loans have been approved. The birds are singing, the grass is getting green, they need to go to the field, and we keep telling them there is no money. Where is the bottleneck?

Mr. CLARK. Well, the chairman referred to the number of people we have on our staff, one of you did. I guess we have 14,000 now. It is hard to get 14,000 people at Farmers Home marching down the same road, let alone the same beat. You are right. You get isolated cases of perseverance or a different attitude out there. We are seeing it in some of the States.

It is hard to get everybody thinking along the same direction. I thought I had problems in the private sector, but Government is 10 times worse.

I do not understand any delays in funding either. There should be no applicants out there since January that are unfunded. There has got to be a better reason than that. And every time I hear

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something like that, and dig into it, I found out there is a different reason. They have not given us the documentation, they refuse to do certain things, and we could not fund those.

Funding is going to be tight this year. We, as you know, had another $700 million transferred to us under the President's authority from our disaster loan funding, into our direct funding. We probably have about $350 million—about half of that yet remains in national office reserve, that we are allocating on a daily basis. We do that to your State, we have acted on it again today.

There is a backlog. We know what our backlog is in each State, and we are trying to logically allocate those additional funds. Some funds—some States are overdrawn already in what they should have received. As I recall, your State is. It gets a terrible demand out there. You have got some terrible problems in that State.

But there should not be that kind of delay. We are determined to turn those applications around.

If indeed it has been approved up to a point where it is unfunded today, that could be happening. But not since January. We are still on a first-come-first-served basis. I think it is wrong. I think we ought to be able to prioritize our borrowers as to their need and hopefulness of success in their endeavor. We ought to fund those that have got a chance of making it first and get to the borderline cases down the line a little.

We cannot do that yet. We are going to work on some regulations for next year that gives us some better credit approval decision authority to do that. So I would hope that next year we can do it better, and to prioritize our applicants.

Mr. ENGLISH. Will the gentleman yield?

I want to make sure that we are understanding this correctly. Mr. Clark, you say that there is no shortage of money, money is available. And therefore, we should not be running into long delays in any of the States of the Nation on applications that have, in fact, been approved?

Mr. CLARK. The long delays, I do not know what you mean by that. But I would say 30 days is too long.

Mr. ENGLISH. So it should not be longer than 30 days. There should be no delay longer than 30 days and the county supervisors should not be giving information that Farmers Home Administration is out of money.

Mr. CLARK. The State director could be doing his own thing. Again, there is an autonomy of management. The State director could be allocating those funds only by each county, too, that could cause some funding problems in a certain county. We leave that up to the State director, to allocate his funds as well. But he also has the authority to move them around.

And if there are some problems emanating in a certain county, it could be because of the allocation system within the State. We do not try to run that from Washington, saying director, that is how you will do it.

If we get problems on that, we respond to them and we will talk to the State director, if there is a particular problem in a county.

I might tell you also we have sent out 20 teams now, to 20 States, to be sure our States are doing the right thing in their loan approval process. Again, I tell you if we are erring, it is on the side of

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leniency and compassion. We are approving too many loans out there, even today, that should not be approved.

In some States, as high as 20 percent of the loans are being approved where there is no cash-flow. We are giving those State directors some problems, saying you know we are not going to fund any more of your loans until you clean your act up.

So we have some local, in-house management problems.

Mr. LIGHTFOOT. Thank you, Mr. Chairman.

One thing we run across, and again this may be something happening at the State level and an opportunity to clear the air here. And excuse me for being a little parochial on this one, Mr. Chairman, but maybe it is happening in Oklahoma also.

Farm borrowers who had operating loans, who paid up in full the last year, when they go back in this year, they are being treated as brandnew borrowers and told to go to the very end of the line, which is creating a tremendous amount of frustration. And what is starting to happen, and what we are hearing, is OK, next year I have no intentions of paying that loan off. I am going to leave a little something in there so that I am still at the top of the list.

In fact, I have a gentleman who is very close to us who, due to his own personal circumstances, was about somewhere in the neighborhood of nearly $100 short of paying off his loan last year. He went in this spring and the money came right on through. His son, who paid off his operating loan, and is really in a better position than the father, was told that he was going to be treated as a brandnew borrower and had to go through the whole process again.

And of course, that is when we run into this thing that there was not any money in the pipeline. And the son is still sitting there without any money. Is that a State problem or is that a policy on the national level, that once you pay up a loan then you become a brandnew borrower?

Mr. CLARK. No; that is the very thing I am talking about. We do not have the flexibility to do the things in-house that we want to do. We would like to take care of that borrower on a prioritized basis. The regulations now preclude that. The regulations say first come, first served. The guy who is a brandnew borrower is in line before the guy who owes us $100 bucks or has paid us off and still has to wait. I think that is wrong. We should be able to prioritize our applicants. We want to do that next year.

Mr. LIGHTFOOT. Is that something you can do administratively or do we need to give you some guidelines?

Mr. CLARK. No; we can do it administratively. We need to publish—we are going to do that in August—publish new regulations for next year's season and we will ask for a comment period and we will plug it in and make it work as of our fiscal year, beginning in October.

We will take care of that, Mr. Lightfoot.

Mr. LIGHTFOOT. I appreciate that.

What kind of response are you getting on your homestead regulations?

Mr. CLARK. Well, it's a little early. Again, we need to publish our debt settlement regulations, which allows the forgiveness of debt at the local State level, without coming into the national level. Right now, any debt settlement of $25,000 or more needs my signature.

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That is ridiculous. We want to push more of that authority out into the field. I'm thinking of $100,000 or more, so the State director can settle that debt.

Those settlement procedures and the foreclosures or bankruptcies need to be resolved before we can officially and formally offer the homestead provision. In the meantime, the borrower is in the house. We are not bothering him, while his debt goes through that process. We are saying, give us your application, when your debt is resolved, we will sign up and lease that property back to you.

The mechanism is going forward. We need to polish our regulations. That should be done within the next few weeks.

Mr. LIGHTFOOT. One final question. I guess it is no secret that we are pushing FmHA more into the category of the guarantor rather than the direct loan maker. As we go in that direction, so that we can eliminate some of the problems we have discussed here, it has been suggested that possibly more and more of this county work, the local level work, be put in the hands of the existing commercial lenders under a strict set of guidelines set out by FmHA, which say I am a banker and I know his performance, I know what his capabilities are, I have worked with him a few years, he's one of my customers, probably in a lot better position to make a judgment on his ability to repay than someone else or at least if you go to FmHA, you have to go through that whole thing and try to establish the same criteria.

Would there be any support to move some of that over onto the private side, under strict guidelines and supervision by FmHA, as an effort maybe to make a better quality loan, place it a little bit better and the same time, get money out to people who really deserve it and can improve the cash-flow?

Mr. CLARK. Our guarantee program works just that way, Mr. Lightfoot. We take their documentation; their statements, their appraisals.

Mr. LIGHTFOOT. I agree with you. What I am saying is rather than all of the work that you go through now, once you do that, give that lender more responsibility, which in turn would take some of that load, some of the decisionmaking off your people. That seems to be where we are getting a bottleneck. There are very few people in the office that can say, yes, this man gets it or he doesn't. In essence, this would give you more people to work for you, which are not on your payroll directly.

Mr. CLARK. We have really responded and listened to the bankers; tell us, what makes it better. We have done practically everything they have asked us to.

There is always that possibility of bankers dumping their bad credits on us. We have to keep our guard up about that. We don't want to burden the taxpayers with losses through that system because of that attempt.

I think we have really streamlined the system very, very well. There is still coping out, if you will, of some banks saying it is too much paperwork. We don't believe that.

Mr. LIGHTFOOT. Thank you very much, Mr. Clark.

Mr. TOWNS [presiding]. Thank you very much, Mr. Lightfoot.

Mr. Clark, you mentioned the temporary employees. What are they allowed to do? Could you tell me what their functions are?

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Mr. CLARK. Temporaries can be at any grade level, if you will. They could be at the same level as the county supervisor. We could use temporary help to even approve loans and to negotiate with the borrowers or it could be a clerk typist. It all depends on what is available, what that county supervisor in that county office needs. There is no restriction on it.

Mr. TOWNS. Wouldn't they need some kind of training of some sort?

Mr. CLARK. The point I made was many of them are retired Farmers Home employees. They are willing to come back for a couple of months to work for us in this peak season. Others are Extension Service people who are available in the area, who no longer work for the Extension Service or SES, ASCS, people who are out that we have identified who want to help us. Very few do we bring on and try to train because it is too much of a burden and it takes too long to train somebody to get them to be productive. I think you will find that is not happening.

Mr. TOWNS. On page 2 of your testimony, you indicate that farm earnings are under $20,000, gross sales, yet the homestead program requires that farm income be at least $40,000 in order for farmers to participate.

With this criteria, how many black farmers do you expect to have in the homestead program?

Mr. CLARK. I have no idea. We didn't put that in there. That came from the farm bill. Members of Congress put that number in there. Personally, I think it is too high. I understand there are some bills being introduced to lower that number. I think it ought to be lowered. I think it is too high. I have no idea what that would be as a restrictive number to minority farmers. I would think it would be quite restrictive.

Mr. TOWNS. You indicated earlier that you have a list of 20 States that you have sent teams into. Could you give us the list of the 20 States that you sent teams into for the record?

Mr. CLARK. I'm sorry, Mr. Chairman. I don't have it with me. I will be happy to furnish that for the record.

[The information follows:]

The following is a list of States visited by A-Teams from the FmHA National Office during the past 2 months: Alabama, Georgia, Illinois, Iowa (2 times), Kansas, Louisiana, Minnesota, Mississippi, Missouri, Nebraska (2 times), New York, North Dakota (2 times), South Carolina, South Dakota, Tennessee, Texas, and Wisconsin.

Mr. TOWNS. Thank you very much.

One of the most disheartening subjects this committee heard from witnesses last year was the extraordinary length of time it took to get a decision on a loan application. Before a farmer comes to you, he must have exhausted other lending sources. That puts him way out at the end of the limb. He doesn't know if he will be able to farm in the coming year. He doesn't know if he should do normal preplanting operations because that would waste whatever money it costs unless Farmers Home would approve a loan. He can't take advantage of early buying of chemicals and seed.

When he comes to Farmers Home and his application lingers in the office for 70 to 80 days or even up to 110 days in many instances, the farmer must feel like he has been pushed off the limb.

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If the loan does not come in advance of planting time, the farmer starts the crop year in the hole. He most likely will not be able to get the yield that would be expected if all the farming operations were conducted at the right time.

I must admit when I heard that you were coming on board and I learned of your background, I was somewhat excited about that. As a man of your experience in the banking field, how quickly would your bank have expected their loan officer to approve a complete application?

Say for example the application was from a repeat customer. How long?

Mr. CLARK. Again, if I throw a date at you or days, it could be wrong because each case is different. You could say 30 days if you had all the documents. I would say that is a pretty fair number. If we had all the documents necessary to put that together, all the financial information——

Mr. TOWNS. A repeat customer.

Mr. CLARK. At the outside, 30 days. I have to tell you the private sector experiences the same flood of applicants as does Farmers Home and the Farm Credit System. You can't just turn it around in 24 hours. It is not that simple. There are also credit checks. Even a repeat customer, you want to run a trade check on them to see if indeed they have paid their feed or seed bills or whatever.

Mr. TOWNS. It is disappointing to hear that you haven't yet issued instructions that the decision must be made within 60 days after application. Planting time in a good part of the Nation is already here.

Do you have any idea at all how many applications have already been passed within the 60 days?

Mr. CLARK. I'm sorry. How many are yet remaining?

Mr. TOWNS. Yes.

Mr. CLARK. No; I can't throw that number at you. Again, I would be happy to submit that for the record. It is substantial. I think this is a normal period. Incidentally, our applications are down about 15 percent this year from the previous year. We are getting fewer applicants this year.

[The information follows:]

Our latest statistics show that during the months of February and March 1986, a total of 41,154 applications were received by our county offices for farm loans. Also, during that same period, a total of 31,948 farms loans were approved, but not closed, by our county offices.

Mr. TOWNS. The last question is something which we constantly hear when we talk about having people come in to testify and taking testimony. They are intimidated. They are saying, if we come in and testify, the Farmers Home Administration will deny our further loan applications. There has been a couple of situations where people have pointed this out.

Do you know anything about this at all?

Mr. CLARK. I have heard such stories. I have to tell you, I will not allow that. If anything comes up like that, I would like to hear about it. You give me specifics and we will follow through on it. That will not be allowed at Farmers Home. That should have no influence on credit decisions. That is the American way and the

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American right, to complain. I am not going to hold that against anybody.

Mr. TOWNS. We have one case in particular that we will actually refer to you. It seems to me he had documented it wherein that the moment he came and testified before this committee, from that point on, his trouble started. He had a record of loans from the Farmers Home Administration for years. The moment he showed up here, from that point on he has not been able to get a loan. We would like to refer that to you and you can look into it.

Mr. CLARK. Please. Thank you.

Mr. TOWNS. Thank you very much. I have no further questions. Mr. DioGuardi.

Mr. DIOGUARDI. I have a question on the financial side. My background is from the private sector. I saw that Peat, Marwick & Mitchell did a study recently. Two years ago, this committee issued a report critical of the process by which the FmHA decided to use the coordinated financial statement.

Can we expect to see more justification and documentation for this decision to replace the farm and home plan that was the case for the CFS, the coordinated financial statement?

Mr. CLARK. Have you had an opportunity to review the Peat, Marwick & Mitchell report yet?

Mr. DIOGUARDI. I have not. I was just discussing that with staff.

Mr. CLARK. You will find they were very adamant in their evaluation, saying it is totally inadequate. We have to do something better. I have been talking to Farm Credit System people. My first indication is why can't we use the same application forms as Farm Credit System? Why can't we use the same financial information and input data that the Farm Credit System used?

In my statement I made the point that it would be easier for our borrowers then to graduate to the outside world once they are getting used to those forms. We are going to pursue that with Farm Credit System. I already have the blessings from the legal department that we can do that.

Incidentally, I would tell you that we are stuck with a lot of consolidated financial statement data. I would like to give it away and found out I can't even do that. I would like to give it away to universities because it is a fine financial program.

Mr. DIOGUARDI. I guess the issue here is if we are going to adopt a new system, that we have sufficient documentation for adopting a new system. That's the issue we are concerned with.

Do you think it is necessary that the Farmers Home Administration develop or rely upon one particular financial system for use by all farmers throughout the country?

Mr. CLARK. My inclination is, yes. I think you need uniformity. It is very basic information. A financial statement is a financial statement. Why should it be different in your State as opposed to one in the West?

I think there ought to be uniformity. It makes training, supervision, and auditing so much easier to work with. Are you suggesting that we do otherwise?

Mr. DIOGUARDI. No. 1, the current system, by the Peat, Marwick & Mitchell study, suggests that the current system is out of date. I have to look at the study to see why they have come to that conclusion. The CFS system that was put in apparently is too unwieldy. It

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was over 20 pages long. You can't expect people in small business—and most farmers are small business people and certainly the minority farmers are in that group—to deal with that kind of reporting mechanism. It is just one more bureaucratic nonsense vehicle to confuse things rather than help people.

From what I see right now, we are in between a system that we have used for many years that doesn't seem to be responsive to the needs of farmers and a system that was implemented without outside professional guidance. Apparently, it was done internally, which is way beyond what anybody could fulfill, much like our own tax returns today, with April 15 coming up.

I have been a CPA for 22 years for a major accounting firm. I have to tell you that I can't prepare my own tax return and I am sure you can't either. That's the way Government has imposed itself on people.

I would think among the farmers of this country, they have the same problem. Whether or not one standard form would do, I don't know. It would seem to me there might be regional differences and differences among different kinds of farmers. I hope these things will be studied as part of the decisionmaking process leading to a new reporting vehicle.

One problem I have seen since I have been in Congress more than anything else is lack of accountability. It starts right here with Congress. That is the one thing I am going to do, because I never ran for anything in my life except president of a homeowners association, until I ran for Congress. As a CPA, only one of four in Congress today, I am going to be sure that no matter where I sit that we get vehicles for better accountability, better responsiveness. I don't see it anywhere in the system, starting with Congress, and then the executive branch.

I am getting involved now with the farmers and I am learning a lot more from my colleague, Mr. Lightfoot, who comes from a farm district. I don't. I would like to lend my efforts as a CPA to be sure that we provide accountability and responsiveness in that sector as well.

I am going to be looking at the Peat, Marwick & Mitchell study a lot more. It is the first I have heard of it. I would like a summary of that. I want to lend my own expertise as a businessman, not as a politician, to be sure that whatever comes out of that is a vehicle that is going to work to give us the information we need, but is a vehicle that the farmers are going to be able to utilize. Hopefully, it can be somewhat standardized. If it can't be, we have to be sure it is responsive to the needs of farmers around the country. There may be some regional differences. I don't know. I will have to get an education from my friend, Congressman Lightfoot.

Mr. CLARK. I am delighted with your commitment, Congressman. I will be looking forward to your input. I also find some comfort that you have problems with your tax forms as I do.

Mr. DIOGUARDI. We have to come up with a simpler, fair tax law, don't we?

Mr. TOWNS. Any further questions?

Mr. DIOGUARDI. We appreciate your testimony.

Mr. TOWNS. How much land does the Farmers Home Administration own today?

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Mr. CLARK. We have about 4,000 farms in inventory, about 1.87 million acres. Obviously that number will probably increase. It is a great burden to us to manage that property as well as a financial burden to the taxpayers to manage that property.

Mr. TOWNS. Is any of it being offered for sale?

Mr. CLARK. Yes, very carefully. We are husbanding that land. As the 1985 act mandates, and continues a practice we have had now for several years, we will not put that land on the block when it would in any way decrease the value of land around it. We are selling some of that on a piecemeal basis.

A farmer has his eye on 200 acres next to his property and is willing to pay the market price for that property and we are convinced it will not indeed do anything detrimental, we will sell him those 200 acres.

Mr. TOWNS. Are you leasing any of the land to family farmers?

Mr. CLARK. Yes; we are. Again, the 1985 act has mandated some lease changes. We now have to offer that property to the original borrower that had it. That is causing some problems. We have to go way back in history to do that. We might have had that property in inventory for 5 years. We now have to go back and find that property owner 5 years ago and offer him that property for lease.

Then we have to go through, of course, the analysis of whether or not he can financially manage that property.

There are some headaches. In Missouri we have an outside firm now managing it for us. We tried that last year and it worked well. We are going forward with it. We are now in the process of bringing those regulations to being on the leasing to previous owners.

Mr. TOWNS. With blacks losing their land 2.5 times faster than whites in this country, can you explain to me why blacks have received so few farm ownership loans? For example, in North Carolina, in fiscal year 1984, 323 loans were made; 302 went to whites, 20 to blacks, and 1 to an American Indian. In Mississippi, in 1984, 250 loans were awarded; 236 went to whites and 14 went to blacks.

Mr. CLARK. I will reiterate, there are no racial decisions involved in those loans. If you go back and look at each of those cases, I would stake my reputation on it, those are logical financial decisions, credit decisions made. It has nothing to do with race.

If you will give me some instances, we will do it.

Mr. TOWNS. Strange looking numbers, though. You must admit that.

Mr. CLARK. Again, as my statement reiterated, the black farmer has trouble out there in that financial competitive arena. They are experiencing perhaps more financial problems than others.

Mr. TOWNS. But when you discuss it with them, and I say to you they make a strong case for the fact that the uncertainty around the loans, whether they are going to get them or not, the fact that it takes so long for a decision to be made one way or the other, all these things attribute to the problems that they are having.

So they also add that as being discriminatory.

Mr. CLARK. Probably I would, too, if I were in their position. Suspicion obviously arises, but I am convinced that that is not the case. If you will give me specifics, Mr. Towns, I will be happy to explore them.

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Mr. TOWNS. I think you have to say that if I was coming down from Mars or somewhere, and just arriving here, and to look at those numbers, I would have to say there is something rotten in the cotton, looking at those numbers. Do they not look a little strange?

Mr. CLARK. When I look at the staff's report on what you've done out there in the field, as I listen to what you are asking me now, I am thinking of that old Mark Twain quote, "do you want statistics or do you want the truth." I am trying to give you the truth and I do not think the statistics are going to support your position in that case.

Mr. TOWNS. I think the statistics support my position. I think I will slant away for a while on the truth. But the statistics, I think, justify what I am saying. I mean, if you look at these numbers, you are talking about 323 loans; 302 went to whites, and 20 to blacks, and 1 to an American Indian. I mean, one would have to say there is something going on there.

Now I think that is a safe assumption. The statistics point out that. I hope that you would look into this further.

Now you are saying that is not the case, and that I would have to wait on, and to look a little further. But the point is that the statistics justify what I am saying. I think there is no question about that.

Mr. CLARK. Mr. Towns, there is an appeal process in our apparatus, as you know. Each of those borrowers, if they are rejected, can appeal.

Mr. TOWNS. How does that work? Can you give me the various stages of that?

Mr. CLARK. Fine. If that black farmer is rejected on the farm ownership loans, he does not have to take that county supervisor's decision. He can appeal that decision.

It then goes to a hearing officer, who listens to all the testimony on that. The farmer can have counsel, if he wants. He can have friends with him if he wants. We listen to that appeal process. It comes on up and a decision is finally made on the appeal. So there is a process open to them.

Incidentally, in our appeal process probably—as I look at them—6 to 8 percent are reversed. So the system does work.

Mr. TOWNS. Thank you.

Mr. LIGHTFOOT. Just one quick final question before I go vote here. Earlier we talked about the 1,000 temporary workers that you are hiring. Basically, you are going back into retired people, folks that have been in the system so that you have that experience level.

No. 1, are you able to find 1,000? No. 2, is that enough? If not, do we need to do some things to help you get the funds or whatever you need to do it, or can you do that from within the Administration itself?

Mr. CLARK. I think we can do it. Incidentally, Mr. Lightfoot, we gave every State director the exact number of temporary and overtime dollars he asked for. So we met their demands.

Six or 8 months ago we had trouble staffwise and we were getting some false numbers out of them. So we said States, be honest

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with us. What do you really need to do the job, and we gave them exactly what they wanted. So we can take care of it in-house.

Mr. LIGHTFOOT. Just a quick followup to go with that, something that Mr. Towns was talking about. As a farm reporter for about 15 years, before I got involved in this business, and watching FmHA over the years, and how this whole political thing has shifted where you are now becoming one of the primary lenders in the country, it appears that you need some kind of a mechanism with FmHA to purge yourself of loans that should not have been made in the first place, of loans that have not been paid on for a period of years. I realize that a lawsuit tied your hands to do that, the one that came out of the Dakotas at one point in time.

But in cold, hard financial figures, if you were able to purge FmHA of those loans which there is absolutely no possibility they will ever be paid off, do you have any idea how many dollars that would free up for you to loan to people who at least have a fighting chance? What percentage of your overall portfolio would be in that category of totally uncollectible loans?

Mr. CLARK. Well, if we charge those loans off, it does not free any additional loans, it just reduces the portfolio amount. The dollars available for credit, again, come from another source, as you know.

I have got to tell you, the numbers as I look at them, from a cold, hard bankers appraisal, is in excess of $5 billion of that portfolio I think is in real trouble.

Mr. LIGHTFOOT. There is no chance of probably ever collecting any of that?

Mr. CLARK. Not a chance.

Mr. LIGHTFOOT. In other words, the taxpayers pay for it?

Mr. CLARK. They sure do.

And as a taxpayer, I resent that.

Mr. LIGHTFOOT. So do I.

Thank you, Mr. Clark.

Mr. TOWNS. Thank you, Mr. Lightfoot.

The subcommittee will request the Agriculture inspector general to monitor Farmers Home during the next year to see how well the agency does on what Mr. Clark promised today. We will expect that if the IG finds things going wrong at any time, they will point out shortcomings to Mr. Clark and then he will report to the subcommittee in the summer of 1987.

[Additional questions submitted to Mr. Clark, with replies, follow:]

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Question 1: Please describe in detail, step by step, the appeals process now in effect.

Response: The FmHA appeal procedure is a three-part process. In the event of an adverse decision by FmHA the appellant may, first, request an informal conference with the decision maker to discuss the reasons for the decision.

If the problem is not resolved, the appellant is notified in writing of his/her right to a hearing. The appellant must request a hearing within 30 days. The hearing is informal in nature and gives the appellant the opportunity to refute the findings of the decision maker. The appellant may present witnesses and/or written evidence, and be represented by legal counsel or others. The hearing officer may modify, uphold or reverse the adverse decision. If the decision is upheld, the appellant may ask for a review at a higher level of authority.

The review officer reviews the case file, hearing transcript and tapes and any additional information provided by the appellant. The appellant does not meet with the review officer. If the review officer upholds the decision, the appellant is notified in writing and advised that the administrative appeal review has been concluded.

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The level at which the hearing and the review are conducted is dependent on the original decision maker. We are attaching a copy of Exhibit D to FmHA Instruction 1900-B which shows the various levels of hearing officers and review officers. It is marked Attachment #1. The FmHA appeal procedure is cited in the Code of Federal Regulations (CFR) at 7 CFR 1900-B.

Question 2: Have you experienced any snags in applying the new regulations for appeals?

Response: We have not experienced any problems in implementing the new regulations. An appeal regulation was already in existence for insured loans which required only a few minor changes. Guaranteed loans were then included under the same regulation.

Question 3: Is there a backlog of pending appeals?

Response: Nationwide, we do not have a backlog of appeals.

Question 4: What is this year's experience on appeals--more than normal, less than normal, about the same?

Response: Appeals are down approximately 30 percent from the same period of time last year.

Question 5: How do you plan to conduct the study of using administrative law judges in the appeals process?

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Response: We have not completed our study on the use of administrative law judges in the appeals process. Questionnaires have been sent to all FmHA State and District Offices on this matter, and we are presently compiling the data received from those offices. We have also discussed the feasibility of the use of administrative law judges with our Office of General Counsel.

Question 6: Please supply by State the farms and acreage in inventory.

Response: The most current compilation of inventory farm information is given in Attachment #2, "Farmer Program Inventory Property as of March 1986." This lists inventory properties by State.

Question 7: How are you conducting sales of land in inventory? (i.e., open bid, auction, through real estate agents etc.)

Response: The manner of disposal of land in inventory is conducted as provided for in FmHA Instruction 1955-C, "Disposal of Inventory Property" (7 C.F.R. Part 1955, Subpart C). When a farm property is taken into inventory it is classified as suitable property or surplus property.

Suitable farm property is property that can be used to carry out the objectives of an FmHA loan program(s) with financing provided by FmHA. It is offered for sale to eligible farmer program applicants. Sales are conducted by FmHA County Office personnel by posting sales notices and public advertisement. State Directors can authorize the use of real estate brokers, if the situation warrants, and it is in the Government's best interest.

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Surplus farm property is property not suitable for eligible farmer program applicants. It is offered for public sale by sealed bid or auction. The State Director determines the method of sale and the minimum acceptable sale price. Public notice/advertisement would be given. If no acceptable bid is received, the State Director may sell the property at the best price obtainable, without further public notice, by negotiating with interested parties. The best price obtainable would be sought. The State Director may authorize the use of real estate brokers to sell surplus property, if the above methods have proven unsuccessful.

Question 8: Your testimony states that you are holding some land off the market. Where is this occurring? How many acres?

Response: On August 14, 1984, the Secretary through the Administrator directed the temporary discontinuation of sales of farm inventory property, until a determination was made that sales would likely not depress the real estate market. Presently, 765 counties in 20 States have been directed by the Administrator to suspend sales.

	State	No. of Counties Withheld	Acres
1.	Arkansas	1	*
2.	Idaho	4	*
3.	Illinois	102 (all counties)	17,981
4.	Indiana	3	*
5.	Iowa	99 (all counties)	51,749
6.	Kansas	105 (all counties)	66,801
7.	Kentucky	1	*
8.	Louisiana	2	*
9.	Michigan	3	*
10.	Minnesota	87 (all counties)	39,363
11.	Mississippi	1	*
12.	Missouri	63	*
13.	Nebraska	93 (all counties)	32,610
14.	New Mexico	1	*
15.	New York	2	*

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16.	North Dakota	53 (all counties)	55,531
17.	Oklahoma	5	*
18.	South Dakota	67 (all counties)	78,177
19.	Tennessee	1	*
20.	Wisconsin	72 (all counties)	37,502

*Do not have acres on individual counties.

Question 9: Have you issued criteria for deciding where land should not be offered because it will adversely affect the market?

Response: Yes. FmHA revised Regulation 1955-C, Section 1955.109(a) establishes criteria to be considered in making this decision.

State Directors will analyze farm real estate market conditions within the geographic areas of their jurisdiction and determine whether or not the sale of the FmHA farm inventory properties will have a detrimental effect on the value of farms within these areas. Such analysis will be carried out by January of each year and as often throughout the year as necessary to reflect changing farm real estate conditions. If the analysis of farm real estate conditions indicate that such sales would put downward pressure on farm real estate values in any area, all farm properties within the area affected will be withheld from the market and managed until such time that a subsequent analysis indicates otherwise. State Directors, in consultation with other lenders, real estate agents, auctioneers, and others in the community will analyze all available information such as:

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(1) The number of farms and acres that FmHA expects to acquire in inventory.

(2) The number of farms and acres other lenders expect to acquire in inventory.

(3) The number of farms and acres that FmHA currently has in inventory.

(4) The number of farms and acres other lenders currently have in inventory.

(5) The number of farms not included in paragraphs (a) (3) and (a) (4) of this section which are currently listed for sale.

(6) Published real estate values and trend reports such as those available from the Economic Research Service or professional appraisal organizations.

Question 10: Who is authorized to decide which land will be retained and which will be sold or leased?

Response: State Directors will make the decision based on the criteria set forth in our response to Question 9, within their individual jurisdictions. In addition, the Secretary of Agriculture and the Administrator of Farmers Home Administration may withhold properties from the market when farm real estate conditions indicate that sales would put downward pressure on farm real estate values.

Question 11: Is any of the land being operated under management contracts?

a. Were each of these contracts obtained through open, competitive bidding?

b. How did you apply the requirement that local residents be given first priority?

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Response: There is a farm inventory management contract in effect in Missouri, which has been under a surplus property sale moratorium. Management contracts are under development in a number of other States, as fits their individual market circumstances. All contracting is awarded through competitive bidding.

The regulatory requirement that local residents be given first priority in management contracting was issued to the field in FmHA Instructions 1955-B, Section 1955.65 (c)(1), and 2024-A, Exhibit J, paragraph 11 c, "Procurement Preference Program," a copy of which is enclosed as Attachment #3.

Question 12: How many applications for the interest buy-down program are on file (round numbers)?

Response: As of March 31, 1986, there were 125 applications on hand.

Question 13: What is the geographic distribution of these? (i.e., heavier mid-west, evenly spread, light in the northeast, etc.)

Response: The mid-west region is responsible for most of the application activity, with Iowa alone showing 78 applications on hand. A total of ten States are reporting applications for the buy-down program.

Question 14: How fast are the applications being processed?

Response: Applications for the interest rate buy-down program are being processed within the 60-day time frame required by law, and in several instances within 30 days.

Question 15: Have you instituted procedures designed to speed processing?

Response: Applications are being processed within an acceptable time frame at present; and we do not see the need to institute any new procedures to expedite processing.

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Question 16: Section 1316 requires you to issue periodic summary statements to insured borrowers. Since the statute did not specify what the period should be, what have you selected?

Response: As required by the Food Security Act, FmHA will, upon the request of a borrower of a loan made or insured under the Consolidated Farm and Rural Development Act, issue a loan summary statement that reflects the account activity during the summary period for each loan made or insured under this title to such borrower.

The loan summary statement period is defined as the annual period from January 1 through December 31. Our Finance Office will forward interim loan summary statements to the field offices each quarter for all loans made or insured under the Consolidated Farm and Rural Development Act. These interim loan summary statements will reflect cumulative data from the beginning of the current calendar year through the end of the most recent quarter. Each field office will retain the most recent quarterly statements to respond to borrower requests for statements of account during the calendar year.

The calendar year-end loan summary statements will be retained in the borrower files as a permanent record of borrower account activity for the year. A field office shall, at the request of a borrower, copy the applicable loan summary statement(s) and provide the copy(s) to the borrower.

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Question 17: Descriptions of the small farmer assistance programs show them to be innovative with promising effect. Is your staff at work trying to move the experience gained in past projects to other areas? It seems to me that farms of all sizes could profit from many of the ideas developed for small farms. Can you cooperate with the Extension arm of USDA to spread the word so that the load isn't all carried by Farmers Home?

Response: We expect the small farmer assistance programs that are now underway through contracts with Tuskegee University, North Carolina A&T University and Ft. Valley State College to provide much of the methodology and technical expertise needed to help small farmers maintain their operations and become successful in agriculture. The North Carolina A&T University project has been completed and a written report will be submitted to FmHA by May 30, 1986. At that time, we will be able to get a better perspective of the quality and effectiveness of the program as it relates to small farmers in that State. In addition, depending on the results of these projects, we would favor expanding the programs to other areas to help farmers overcome their financial and production management problems. Also, the results of these projects will be furnished to all FmHA County Offices and, if warranted, to the County USDA Extension Agents for their use, as needed, in counseling/supervising family farmers, of all sizes.

Question 18: The agricultural economy has not improved from last year, so Farmers Home must have known that it would be flooded with applicants this year and that extra help would be needed. Why did you wait until just last week to authorize hiring temporary employees? Wouldn't it have been prudent to get people on board soon enough to prevent a backlog from building?

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Response: The Agency distributed additional resources of staff years, overtime and travel to help FmHA field offices meet the fiscal year 1986 farmer program work requirements. Efforts have been made to most efficiently utilize the Agency's resources in meeting the high volume of work encountered during the peak spring lending season.

Accordingly, the initial distribution of these resources was made on February 14, 1986, for 200 additional temporary staff years and $1.5 million in overtime. A second allocation, made on March 25, 1986, included 411 temporary staff years, $2,013,475 in overtime, and $958,600 travel. We are continuing to approve additional requests from State Directors where there is still a need for further staff, overtime and travel.

In addition, FmHA State Directors have been detailing employees within their jurisdictions to county offices with large backlogs of loan applications. Also, contracting with qualified private contractors is being utilized in many States for processing loan applications and servicing existing borrowers' accounts.

Question 19: On December 2, 1985, Farmers Home published in the Federal Register a proposed rule which would grant the Administrator the right to unilaterally decide that no loans could be made to refinance agricultural commodities in surplus supply. The preamble of that proposed rule said, "This action is being taken to support other Governmental (USDA) actions to reduce production and strengthen depressed prices. The intended effect is to reduce production of such commodities." I understand that Undersecretary Naylor told a Senate committee that the proposal had been withdrawn and would not be implemented. Have you formally published a notice in the Federal Register that the proposal has been withdrawn?

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Response: As you stated, a proposed rule was published in the Federal Register December 2, 1985, which would grant the FmHA Administrator the right to curtail loans being made to finance agricultural commodities in surplus supply. At this time, we have not formally rescinded that proposal in the Federal Register. However, the Agency is now in the process of reviewing the proposed regulation due to the overwhelming majority of negative comments received from the public.

Question 20: I believe that the rules dealing with proposed regulations allows this proposal to be live until it is formally removed. When do you plan to kill this proposal formally?

Response: A decision has not been made to kill this proposal. However, we are presently reviewing the comments submitted in response to the proposed regulation. Once our review is completed, we plan to amend the proposed regulation and publish it in the Federal Register, as an Interim Rule, subject to a comment period of 30 days.

Question 21: Press explanations of the proposal showed Farmers Home has been restricting loans for a couple of years to farmers who wanted to increase dairy production. Is this policy still in effect?

Response: It has been the policy of FmHA for the past few years and is still the policy to not make loans to establish new dairy enterprises or to expand existing facilities. This policy was implemented because of the surplus in dairy production which continues to be a substantial cost to the taxpayers and does not benefit the dairy industry.

Question 22: What is your statutory authority to make this decision unilaterally at the national level?

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Response: There is no statutory authority to restrict loan assistance to dairy farmers. As stated in my response to Question 21, that was a policy decision. It was made within USDA.

Question 23: What has been the trend in minority representation on county committees since 1980?

Response: FmHA does not maintain agencywide county committee data from 1980. However, as of December 31, 1985, statistics indicate that 94% of county committees were white, 3.5% were black, 1.3% Hispanic, and less than one percent each were Asian-American or Native American. Fourteen percent of county committee persons were women. The Agency does maintain data for 14 selected States with relatively large black and Hispanic farm operator populations. Those figures are attached. See Attachment #4. The decline in minority representation in these States evidenced in 1983 has stabilized. In 1984 and again in 1985, my predecessor issued a policy announcement to all State Directors reminding them of the need to appoint minorities and women to county committee positions. As you know, the 1985 Farm Bill requires the election of two of the three county committee positions. I have directed FmHA's civil rights staff to work closely with our Farmer Programs staff to insure that all equal opportunity considerations are included in the county committee election regulations.

Question 24: On page 7 of your written testimony, you state, "My preliminary information is that the person involved is not a victim of discrimination..." A public statement to this effect seems to be prejudgement of a case under investigation. How can this individual expect to get an impartial assessment of his case if you have already publicly ruled?

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Response: Since my testimony, we have completed our review of the case file including the running record and county committee minutes. It now appears that the black farmer in question (Mr. Timothy Pigford) has received FmHA services, different in terms of timelines and quality, from white farmers similarly situated. As you may know, the Department of Agriculture's Office of Advocacy and Enterprise (OAE) makes the final determination on civil rights discrimination complaints. We expect to forward our analysis of this case to OAE by May 14, 1986.

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ATTACHMENT 1

HEARING/REVIEW OFFICER DESIGNATIONS

NOTE: A Hearing Officer must in all cases be an individual who was not significantly involved in the decision being appealed.

DECISION MAKER OR DECISION	HEARING OFFICER	REVIEW OFFICER
County Supervisor For Single Family Housing cases	District Director or person selected by the State Director	State Director or designee
For Farmer Program (FP) cases and FP Intent to foreclose real property or chattels	District Director from another district or a person of equal or greater rank selected by the State Director	State Director or designee
County Committee	State Director or designee	Deputy Administrator, Program Operations or designee
District Director	State Director or designee	Deputy Administrator, Program Operations or designee
State Director	Deputy Administrator, ... Program Operations or designee	(No review)
Division Director or .... Assistant Administrator	Deputy Administrator, ... Program Operations or designee	(No review)
Deputy or Associate Administrator	Administrator or designee	(No review)
Decision to foreclose Real Estate ..... (for Single-Family Housing accounts)	State Director or designee*	Deputy Administrator, Program Operations or designee
(for accounts serviced in the District Office) ..	Deputy Administrator, ... Program Operations or designee	(No review)

(1-22-86) PN 994

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*The individual designated as Hearing Officer may not be an employee who is supervised by the person who approved the foreclosure and accelerated the account, nor can the designee have been involved in the decision to foreclose.

NOTES: 1. District Director also means Assistant District Director or District Loan Specialist.

2. County Supervisor also means Assistant County Supervisor with loan approval authority.

3. Designee is the person designated by the Hearing/Review Officer to conduct a hearing or review. The designee signs the decision letter to the appellant without the concurrence of the original Hearing/Review Officer except:

a. For hearings on County Committee decisions. For these hearings the State Director or Acting State Director may designate other persons to act on his or her behalf in conducting the hearing; however, the State Director or Acting State Director must sign the hearing decision letter.

b. When the Hearing/Review Officer, designated by the Deputy Administrator, Program Operations, is not a member of the National Office staff, the complete case file, hearing notes, tape recordings, and a recommended decision will be sent to the Deputy Administrator, for review and a final decision.

c. When the Hearing/Review Officer is a member of the National Office staff, after the decision is written, but prior to notification of the applicant, in all cases requiring corrective actions or training (e.g., reversals or other problems which may become evident) the Hearing/Review Officer will brief the Deputy Administrator, Program Operations, concerning the decision and will notify the State Director involved that the decision will be reversed or modified, and will advise the State Director of what corrective action will have to be taken.

4. For decisions not directly covered above, the Hearing/Review Officer is the person in the next higher level of FmHA authority.

5. When a hearing involves both the action on Form FmHA 1924-25 and any other loan acceleration, the appeal process will follow that for the decision maker to foreclose the non-farmer program loan account.

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ATTACHMENT 2

REPORT NO. 01 — FARMER PROGRAM — 04/20/86 PAGE 1

INVENTORY PROPERTY AS OF MARCH, 1986

STATE	TOTAL OFFICES REPORTING	SUITABLE FARM	SURPLUS FARM	TOTAL FARM	TOTAL NONFARM	ACRES FARM	ACRES NONFARM	LEASED FARM	LEASED NONFARM
ALABAMA	56	9	5	14	2	2,881	162	0	0
ALASKA	4	0	0	0	0	0	0	0	0
ARIZONA	18	5	14	19	2	9,577	2	0	0
ARKANSAS	72	76	32	108	16	23,594	20	6	0
CALIFORNIA	24	62	30	92	14	27,224	59	17	6
COLORADO	23	85	14	99	8	48,975	0	11	0
CONNECTICUT	8	1	0	1	8	26	0	0	0
DELAWARE	4	0	1	1	0	6	0	0	0
FLORIDA	33	22	58	80	10	13,632	31	9	0
GEORGIA	56	23	91	114	3	31,352	3	12	0
HAWAII	6	0	0	0	0	0	0	0	0
IDAHO	28	54	95	149	8	51,148	48	24	0
ILLINOIS	61	89	24	113	0	17,981	0	24	0
INDIANA	40	80	86	166	0	22,999	0	13	0
IOWA	62	210	5	215	1	51,749	1	99	1
KANSAS	39	125	105	230	8	66,801	2	92	0
KENTUCKY	68	28	34	62	1	10,993	1	3	0
LOUISIANA	78	59	19	78	5	20,282	24	36	0
MAINE	29	16	22	38	1	5,967	42	5	0
MARYLAND	17	5	9	14	0	1,826	0	7	0
MASSACHUSETTS	11	1	4	5	0	814	0	1	0
MICHIGAN	37	119	37	156	2	26,312	160	22	0
MINNESOTA	46	120	21	141	1	39,362	25	48	0
MISSISSIPPI	74	73	70	143	9	41,387	106	12	1
MISSOURI	69	410	103	513	5	122,783	120	209	2
MONTANA	28	18	1	19	1	15,260	1	7	0
NEBRASKA	26	70	15	85	2	32,610	4	23	0
NEVADA	6	6	0	6	0	16,028	0	0	0
NEW HAMPSHIRE	10	0	1	1	0	180	0	0	0
NEW JERSEY	13	4	1	5	0	312	0	1	0
NEW MEXICO	24	15	20	35	2	90,211	2	9	0
NEW YORK	41	41	95	136	0	31,769	0	14	0
NORTH CAROLINA	82	53	87	140	8	23,524	139	4	0
NORTH DAKOTA	47	94	2	96	1	55,531	1	31	0
OHIO	34	28	26	54	3	7,889	5	1	0
OKLAHOMA	65	130	17	147	4	52,592	172	42	0
OREGON	18	20	24	44	0	14,551	0	17	0
PACIFIC TERRIT	5	0	0	0	0	0	0	0	0
PENNSYLVANIA	32	17	17	34	0	4,237	0	7	0
PUERTO RICO	22	20	0	20	1	1,782	1	1	0
RHODE ISLAND	2	0	0	0	0	0	0	0	0
SOUTH CAROLINA	43	25	15	40	11	6,518	184	1	0
SOUTH DAKOTA	39	128	10	138	1	78,177	31	65	1
TENNESSEE	76	134	55	189	10	28,817	40	30	2
TEXAS	121	44	2	46	0	35,211	0	12	0
UTAH	16	2	1	2	0	671	0	0	0
VERMONT	14	3	0	3	0	1,085	0	0	0
VIRGIN ISLANDS	2	0	0	0	0	0	0	0	0
VIRGINIA	50	12	7	19	1	2,183	1	0	0
WASHINGTON	20	32	17	49	0	13,678	0	11	0
WEST VIRGINIA	20	11	1	12	1	1,597	1	0	0
WISCONSIN	43	100	78	178	1	37,502	564	61	0
WYOMING	15	14	10	24	1	23,401	9	3	0
U.S. TOTALS	1,857	2,694	1,181	4,075	127	1,811,859	1,961	1,000	12

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(c) Obtaining services for management and/or operation of properties. Services for management, repair, and/or operation of properties will be obtained by contract in accordance with FmHA Instruction 1955-D (available in any FmHA office).

(1) Management contracts. Management contracts are flexible instruments which may be tailored to meet the specific needs of almost any situation involving custodial or inventory property. This type of contract may be used to manage and maintain SFH properties, farms, and any other type of facility for which FmHA is responsible. Organization-type properties will be secured, maintained, repaired, and operated if authorized, in accordance with a management plan prepared by the District Director and approved by the State Director if the amount of total debt does not exceed the State Director's loan approval authority, or by the Administrator. For MFH, this plan should follow the guidance provided by Subpart C of Part 1930 of this chapter. An audit of the borrower's records may be required if recent financial information is not available. For MFH projects, tenant occupancy and selection will be in accordance with the occupancy standards set forth in Subpart C of Part 1930 of this chapter. Tenants will be required to sign a written lease if one does not exist when the property is acquired or taken into custody. If a contract involves management of an MFH project with 5 or more units, or 5 or more single-family dwellings located in the same subdivision, the contractor must furnish Form HUD 935.2, "Affirmative Fair Housing Marketing Plan," subject to FmHA's approval. Contracts for management of farm inventory property will be offered on a competitive bid basis, giving preference to persons who live in, and own and operate qualified small businesses in the area where the property is located in accordance with the provisions in Exhibit J, paragraph II C, "Procurement Preference Program," of FmHA Instruction 2024-A (available in any FmHA office). (Revised

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II. SMALL PURCHASE

A. Definition

Small purchase, as defined in the Federal Acquisition Regulation (FAR 13.101), means the acquisition of supplies, nonpersonal services, and construction from commerical sources, the aggregate amount for which does not exceed $25,000 in the open market.

In the absence of specific statutory authority, Federal agencies cannot contract out for personal services. Because FmHA does not have this statutory authority, FmHA CO may not contract out for personal services. Personal services are usually characterized by the existence of Government supervision of contractor personnel or contractor supervision of government personnel. The presence of some or all of the following elements are the usual test for determining the existence of personal services.

1. Performance of work is at the location of the responsible Government official.

2. Principal tools and equipment are furnished by the Government.

3. Services are applied directly to integral effort of agencies or an organizational subpart in furtherance of assigned functions or missions.

4. Comparable services, meeting comparable needs, are performed in the same or similar agencies using Government personnel.

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5. The need for the type of service provided can reasonably be expected to last beyond one year.

6. The inherent nature of the service or the manner in which it is provided reasonably requires, directly or indirectly, Government direction or supervision of contractor employees in order to adequately protect the Government's interest, or to retain full personal responsibility for the function supported by a duly authorized Federal officer or employee.

B. Policy.

1. Small Purchase Procedure

(a) Definition

Small purchase procedures means the methods for making small purchases using imprest funds, purchase orders, and blanket purchase agreements (FAR 13.101). (For purposes of this handbook, only the purchase order will be addressed as a small purchase procedure).

(b) Acquisition Methods

The Federal government employs two methods for the acquisition of supplies and services from commercial sources: formal advertising and negotiation. The criteria governing the use of a specific method to be used is indicated in the Federal Acquisition Regulation (FAR).

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(i) Sealed Bidding

Sealed bidding is a method of contracting that employs competitive bids, public opening of bids, and awards for acquisitions exceeding $25,000 (FAR 14.101).

(ii) Negotiation and Authorities

Negotiation means contracting through the use of either competitive or other-than-competitive proposals and discussions. Any contract awarded without using sealed bidding procedures is a negotiated contract (FAR 15.101). Thus, a small purchase procedure is a form of negotiation.

Negotiation is a procedure that includes the receipts of proposals from offerors, permits bargaining, and usually affords the offerors the opportunity to revise their offers before award of the contract. Bargaining in the sense of the discussion, persuasion, alternation of initial assumptions and positions, and give-and-take may apply to price, schedule, technical requirements, type of contract, or other terms of a proposed contract (FAR 15.102). However, all offerors must be given an equal opportunity for proposed revision and bargaining.

The requirement to obtain competition is one of the most basic principles of federal acquisition and applies to negotiated acquisitions as well as formally advertised acquisitions. Quotations and offers shall be solicited from the maximum number of sources practicable.

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2. When to use a small purchase procedure

Small purchase procedures should be used whenever practicable and consistent with the guidelines presented in the acquisition regulations. The objectives, as cited in FAR 13.102, are to:

(a) Reduce administrative costs.

(b) Improve opportunities for small business concerns and disadvantaged business concerns to obtain a fair proportion of Government contracts.

The basic rule is that one of the small purchase procedures will be used to purchase supplies and nonpersonal services in the open market when each of the following conditons are present (FAR 13.103(a):

(i) The amount of any one transaction does not exceed $25,000.

(ii) Acquisition requirements cannot be met by using required sources of supply. Field offices procure mainly services and are currently not authorized to procure from required sources of supply.

3. When not to use a small purchase procedure

Small purchase procedures shall not be used for (FAR 13.103(b)):

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(a) Acquisition of supplies and services in the open market initially estimated to exceed $25,000 but resulting award was $25,000 or less.

(b) Aggregate purchase requirements exceeding $25,000 shall not be broken down into several purchases that are $25,000 or less.

C. Procurement Preference Program

The policy of the Federal government regarding small business concerns and small disadvantaged concerns is summarized in the FAR 19.201 (a) as follows:

> "It is the policy of the Government to place a fair proportion of its acquisition with small business concerns and small disadvantaged business concerns."

These socioeconomic requirements apply to small purchases as specified in the Agriculture Acquisition Regulation (AGAR). The AGAR states that all small purchases (of $10,000 or less) are reserved exclusively for small businesses including small disadvantaged businesses. These business concerns are part of the Procurement Preference Program (PPP) established by Congress and referenced in FmHA Instruction 2024-Q. The Government established the program to aid, counsel, assist and protect the interest of small business concerns to preserve a free competitive enterprise, and to place a fair proportion of total Government purchases for property and service with small businesses. FmHA's responsibility in complying with these requirements are listed as follows:

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1. Small Business-Small Purchase Set-aside

Consistent with the requirements of Public Law 95-507, a special category of set-aside, identified as a small business-small purchase set-aside was established. Under this category, each acquisition of supplies and services that have an anticipated dollar value of $10,000 or less and are subject to small purchase procedures, shall be reserved exclusively for small business concerns. A small business concern means a concern, including its affiliates, that is independently owned and operated, not dominant in the field of operation in which it is bidding on government contracts and qualified as a small business under the criteria and size standards of the Small Business Administration (See Exhibit J-1). The Standard Industrial Classification (SIC) Code should be referenced in the solicitation package.

Each written soliciation under a small business-small purchase set-aside shall contain FAR provision 52.219.4. If a solicitation is oral, information substantially identical to that which is in the provision will be given to potential quoters.

FAR Provision 52.219-4

NOTICE OF SMALL BUSINESS-SMALL PURCHASE SET-ASIDE (APR 1984)

Quotations under this aquisition are solicited from small business concerns only. Any acquisition resulting from this solicitation will be from a small business concern. Quotations received from concerns that are not small businesses will not be considered and shall be rejected.

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(a) Determining small business availability.

Only small businesses should be solicited for small purchase requirements when the CO knows or can reasonably expect that sufficient competition in terms of price, quality, and timeliness of delivery can be obtained. Furthermore, all orders of $25,000 or less shall be placed with a small business unless the contracting officer determines that no small firm can meet the requirement.

The CO shall make every effort to locate small businesses concerns and include them on an office small business source list. Following are some suggested references for obtaining sources:

1. Other agencies
2. Trade journals
3. Yellow pages of phone directory
4. Thomas Register
5. Small Business Administration (See Exhibit J-2)
6. Incumbent or previous used vendors.

(b) Small business contract award

If the contracting officer solicits offers under a small business small purchase set-aside but receives only one responsive offer from a responsible small business concern, the CO must make award to that concern if it has offered a reasonable price.

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If the CO proceeds with a small businesssmall purchase set-aside but does not receive any responsible offers from responsible small business concerns, the CO may cancel the set-aside and solicit offers on an unrestricted basis. In that case the contracting officer documents in the purchase file the reason for the unrestricted purchase.

2. Small Disadvantaged Business

It is FmHA's policy that every reasonable effort shall be made by contracting personnel to seek out, counsel, and advise small and disadvantaged business enterprises. CO's should actively identify such sources and encourage participation in FmHA competitive acquisitions. The CO should maintain potential source lists of small disadvantaged businesses and solicit quotes from such firms as often as possible.

A small disadvantaged business concern means a small business concern that is at least 51 percent owned by one or more individuals who are both socially and economically disadvantaged, or in the case of publicly owned businesses, at least 51 percent of the stock owned by one or more socially and economically disadvantaged individuals which include Black Americans, Hispanic Americans, Asian-Pacific Americans, and Native Americans. Native Americans means American Indians, Eskimos, Aleuts and native Hawaiians. Asian-Pacific Americans means U.S. citizens whose origins are from Japan, China, the Phillipines, Vietnam, Korea, Samoa, Guam, the U.S. Trust Territories of the Pacific, Northern Marianas, Laos Cambodia and Taiwan.

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For assistance in locating small disadvantaged businesses, the CO can contact the State Minority Business Development Center (See Exhibit J-3).

3. Women-Owned Small Business

Contracting officers should also promote increased participation by women-owned small business. Sources may be identified through the Small Business Administration, sources listed in Exhibit J-2 or by knowledge of local vendors. A woman-owned small business is a small business that is at least 51 percent owned by a woman or women who are U.S. citizens and who also control and operate the business.

III. STEPS FOR ACQUISITION BY SMALL PURCHASES

A. Competition

1. Requirements for Obtaining Competition

Contracting officers shall solicit quotations from a reasonable number of sources to promote competition to the maximum extent practicable and ensure that the purchase is advantageous to the Government, price and other factors considered, including the administrative cost of the purchase. Solicitations may only be limited to one source if the contracting officer determines that only one source is reasonably available and has documented the determinations.

Minimum practicable competition for small purchases ordinarily can be obtained without soliciting quotations from sources outside the trade area in which the purchasing office is located. CO shall not limit solicitations to suppliers of well known and widely distributed

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ATTACHMENT 4

NUMBER OF MINORITIES ...LUDING WOMEN ON FmHA COUNTY COMMITTEES IN SELECTED STATES - 1981 - 1985

	September 1981	September 1982	September 1983	September 1984	September 1985
Alabama	22 (2)*	41 (1)*	20 (4)*	19 (4)*	30 (5)*
Arizona	12 (2)	9 (2)	5 (1)	4 (1)	4
Arkansas	33 (4)	33 (9)	19 (8)	18 (8)	12 (3)
California	11 (3)	9 (1)	6 (1)	6 (1)	0
Florida	4	9	8 (1)	8 (1)	7
Georgia	41 (2)	38 (2)	6	6	19 (1)
Louisiana	36	35 (3)	27 (2)	27 (2)	29 (2)
Mississippi	49 (7)	45 (4)	16 (2)	15 (2)	12
New Mexico	23 (1)	19	11	11	9
North Carolina	32 (1)	27 (2)	8	15	21
South Carolina	33 (4)	33 (4)	22 (3)	23 (3)	21 (3)
Tennessee	9 (2)	14 (1)	7 (2)	7 (2)	3
Texas	45 (5)	58 (4)	36 (1)	34 (1)	33 (6)
Virginia	38 (7)	32 (4)	19 (3)	16 (2)	19 (3)
Totals =	401 (46)	402 (37)	218 (28)	209 (27)	214 (23)

* Denotes minority women representation on county committees.

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Mr. TOWNS. The hearing is adjourned.

[Whereupon, at 10:42 a.m., the subcommittee adjourned, to reconvene subject to the call of the Chair.]

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APPENDIX

STAFF REPORT

ON

RACIAL DISCRIMINATION

IN

FARMERS HOME LOAN

PROGRAMS

John Helmuth
Chief Economist
Committee on Small Business

Ivy L. Davis
Assistant Counsel
Subcommittee on Civil and Constitutional Rights
Committee on the Judiciary

William Cherry
Staff Member
Subcommitteee on Government Information, Justice and Agriculture
Committee on Government Operations

Brenda Pillors
Legislative Assistant
Congressman Edolphus Towns

Al Zepp
Legislative Assistant
Congressman Robert Kastenmeier

U.S. HOUSE OF REPRESENTATIVES

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Introduction

For 20 years individuals and families from Wisconsin and Mississippi have participated in Project Self-Help and Awareness (PSA), an exchange program for children and adults where people from the two areas visit one another to share experiences, knowledge, and cultural lifestyles. In 1982, several of the Wisconsin participants in this program formed the Madison Support Committee for Mayor Eddie J. Carthan of Holmes County, Mississippi.

One aspect of the Support Committee's work centered on problems that Black farmers in Holmes County, Mississippi have with the Farmers Home Administration (FmHA). While specific statistics were not available, the Black farmers and their friends from Wisconsin became suspicious that discrimination was being practiced against Black farmers. Specific conerns included: loan application rejections; the length of time that Blacks had to wait before getting a decision on their applications; the number of Blacks who were forced to operate under supervisory accounts (where no loan money could be spent without specific approval by the FmHA office); access by Blacks to the limited Resource Loan Program; and interest rates paid by Blacks who received loans.

The members of the Support Committee turned to their Congressmen Robert Kastenmeier (D-WI) and Jim Moody (D-WI) in seeking action to correct the situation in Mississippi. Further inquiries resulted in the interest of others in the Congress, including Rep. Parren Mitchell, (D-MD) Chairman of the House Committee on Small Business; Rep. Don Edwards, (D-CA) Chairman of the House Judiciary Subcominittee on Civil and Constitutional Rights; Rep. Glen English, (D-OK) Chairman of the Government Operations Subcommittee on Government Information, Justice, and Agriculture; and Rep. Edolphus Towns (D-NY). A working group with staff from the House Committees on Small Business, Judiciary and Government Operations and from the offices of Congressmen Kastenmeier and Towns was formed to look into the problem.

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Background

In 1982, the United States Commission on Civil Rights in a study titled "The Decline of Black Farming in America," reported that the rate of decline of Black-operated farms over the decade of the 70's was an alarming 57 percent -- 2.5 times the rate of decline for White-operated farms. The Commission concluded that FmHA has not given adequate priority to dealing with the crisis facing Black farmers. The Commission found indications that FmHA may be involved in the very kind of racial discrimination that it, by law, is required to correct. Black membership on FmHA county committees, which determine FmHA farm loan eligibility, declined 40 percent between 1979 and 1980. Without Black representation on county committees there can be little hope for correcting discrimination problems in FmHA programs.

Since the Commission's report, the number of Black farmers in southern states has continued to decline. Appendix Table 1 shows declines ranging from 2 to 24 percent across the southern states between 1978 and 1982.

A close look at FmHA loan programs shows a decline in the dollar amount of loans going to Blacks in many southern states over the period 1978 to 1984. Appendix Tables 2a - 2p detail the patterns.

Recent Complaints

The complaints recently received by Congressional offices generally fall into the following categories.

- Blacks' loan applications take longer to process than Whites.
- Blacks who do get loans receive their money later than Whites, causing a late spring planting and poorer yields.
- Blacks do not get appointments for spring operating loans until after Whites.

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- Blacks pay a higher interest rate than Whites.
- Blacks receive smaller loans than Whites.
- More Blacks are required to have supervisory accounts -- where each expenditure must be approved by the county FmHA office -- than Whites. The need to obtain approval for every expenditure takes much valuable time during spring planting and can severly handicap Black farmers.
- Blacks are not informed of their rights and of alternative FmHA programs, and are less likely than Whites to participate in the Limited Resource Loan Programs.
- Proportionately more Blacks are rejected for FmHA loans than Whites.

From these complaints the following hypotheses were formulated:

1. Ho_1: There is no difference in processing time for Black and White loans.[1]

   Ha_1: Processing time for Black loans is longer than for White loans.[2]

2. Ho_2: There is no difference in the dates when Blacks and Whites receive operating loan money.

   Ha_2: Blacks receive their operating loan money later than Whites.

3. Ho_3: There is no difference in the interest rate paid by Blacks and Whites.

   Ha_3: Blacks pay a higher interest rate than Whites.

4. Ho_4: There is no difference in the number of supervisory accounts for Blacks and Whites.

   Ha_4: More Blacks have supervisory accounts than Whites.

5. Ho_5: There is no difference in the number of Blacks and Whites who are notified of FmHA programs.

   Ha_5: Fewer Blacks are notified of FmHA programs than Whites.

[1]Ho refers to the null hypothesis.
[2]Ha refers to the alternative hypothesis.

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6. H_{0_6}: There is no difference between the number of Blacks and Whites rejected for FmHA loans.

H_{a_6}: More Blacks are rejected for FmHA loans than Whites.

Methodology

In order to address the question of racial dicrimination in FmHA loan programs three counties were selected for detailed analysis: Holmes County, Mississippi; Bladen County, North Carolina; and Richmond County, Virginia. Minutes of the county committee meetings and complet. lists of all persons who applied for any type of FmHA loan during the period October 1983 through April 1985 were obtained from the three counties.

The loan applicants were identified by race. For each county a stratified random sample of 10 percent was drawn from the population of White applicants. A stratified random sample of Black applicants equal in number to the White sample was drawn from the population of Black applicants. This procedure resulted in an equal number of White and Black applicants from each county and made direct comparisons possible.

Copies of the complete files of those applicants in the random samples were obtained from the three counties.

In order to test the first hypothesis, for each applicant who received a loan the number of days between the application date and the loan closing date[3] was determined. The mean and median number of days for Black and White applicants was determined. Median and t tests were used to determine if there were significant differences.

[3]The loan closing date was usually the first date when applicants received money from the loan. In some cases applicants received cash advances prior to the loan closing date. In these cases the date of the cash advance was used.

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The second hypothesis was addressed by determining the distribution of operating loan closing dates for Black and White farmers.

The third hypothesis concerning interest rates was tested using a median test.

The fourth hypothesis was addressed by observing the frequency of supervisory accounts of race.

The fifth hypothesis was addressed by observing the frequency of notification of set-aside and limited resource loan programs by race.

The sixth hypothesis was addressed by observing the frequency of rejection by race.

Results[4]

Bladen County, North Carolina. Hypothesis Ho_1 -- no difference in processing time for Black and White loans -- could not be rejected for Bladen County. The average processing time for Black loans was 72 days (n=22, s=48) and for White loans 75 days (n=25, s=40).

The distribution in Table 1 addresses hypothesis Ho_2 -- no difference in the dates when loan money is received. The cumulative percentage distribution shows that by the end of March, 50 percent of the Black applicants and 54 percent of the White applicants closed their operating loans. By the end of April these figures were 77 and 71 percent respectively and by the end of May they were 92 and 96 percent. From this distribution it is concluded that Ho_2 -- the hypothesis of no difference -- cannot be rejected.

To test hypothesis Ho_3 -- no difference in interest rates by race -- a median test using the chi-square distribution was used. The median interest rate for all

[4]Results are presented for Bladen County, North Carolina and Holmes County, Mississippi. The sample from Richmond County, Virginia was too small to provide meaningful results.

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TABLE 1

Distribution of Closing Dates on Operating Loans For Black and White Applicants, Bladen County, North Carolina, 1984-85

	Black Applicants						White Applicants					
Month in Which Closing Occurred	Jan	Feb	Mar	Apr	May	Jun	Jan	Feb	Mar	Apr	May	Jun
No of loans closed	2	5	6	7	4	2	3	4	6	4	6	1
Cumulative No. of loans closed	2	7	13	20	24	26	3	7	13	17	23	24
Cumulative Percent	8	27	50	77	92	100	12	29	54	71	96	100

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loans was 10% percent. The calculated chi-square for the median test was 2.45 compared to the tabled chi-square at the 95 percent confidence level of 3.84. Since the calculated chi-square is less than the tabled chi-square, the null hypothesis, H_{o3}, cannot be rejected and it is concluded that there is no significant difference between interest rates charged Black and White loan applicants in the sample from Bladen County.

Hypothesis H_{o4} -- no difference in the number of supervisory accounts -- could not be rejected for Bladen County. Eighty-eight percent of the Black farmers and 76 percent of the White farmers had supervisory accunts. A chi-squared test showed no significant difference at the 95 percent level.

Hypothesis H_{o5} -- no differene in the number of Blacks and Whites who are notified of FmHA programs -- was addressed by observing evidence of notification of the limited resource loan program and the loan set-aside program. The files of all farmers in the sample showed that letters notifying applicants of the limited resource loan program and the loan set-aside program were mailed to both Blacks and Whites at the same time. Thus H_{o5} is accepted -- there appears to be no difference, in the sample, in the number of Blacks and Whites who are notified of (certain) FmHA programs.

The rejection rate for FmHA loans was the same for Black and White farmers in the sample -- 12 percent. Thus hypothesis H_{o6} -- no difference between the numbers of Blacks and Whites rejected for FmHA loans -- could not be rejected.

A summary of the results of H_{o1}, H_{o3}, H_{o4} and H_{o6} for Bladen County is presented in Table 2.

Holmes County, Mississippi. Hypothesis H_{o1} was rejected for Holmes County. The alternative hypothesis H_{a1} -- processing time for Black loans is longer than for White loans -- was accepted. The average processing time for Black loans was 109 days (3.6 months, n=20, s-38) and 82 days (2.7 months, n=20, s=28) for White loans.

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TABLE 2
Summary of Results

		BLADEN COUNTY		HOLMES COUNTY	
		Black	White	Black	White
Ho_1:	Processing Time	Ave. No of Days 72	Ave. No. of Days 75	Ave. No. of Days 109*	Ave. No. of Days 82*
Ho_3:	Interest Rates	Median 10%	Median 10%	Median 10%	Median 10%
Ho_4:	Supervisory Accounts	Percent 88	Percent 76	Percent 47	Percent 29
Ho_6:	Loan Rejections	Percent 12	Percent 12	Percent 27	Percent 12

*Significant difference at the 99% level.

The distribution in Table 3 addresses hypothesis Ho_2 -- no difference in the dates when loan money is received. The cumulative percentage distribution shows that by the end of March, 25 percent of the Black applicants and 22 percent of the White applicants closed their operating loans. By the end of April these figures were 62 and 72 percent respectively, and by the end of May they were both 100 percent. These distributions indicate no significant difference between Black and White applicants in the dates when loan money is received. However, Holmes County appears to close the bulk of their loans in April and May rather than February, March and April as seems to be the case in Bladen County, North Carolina (Table 1). Those applicants who do not have access to their loan money until April or May in a southern area such as Mississippi could experience severe planting set-backs unless they are able to make credit arrangement with suppliers.

The median test on interest rates (Ho_3) showed no difference between Blacks (median = 10%) and Whites (median = 10%) in Holmes County.

Hypothesis Ho_4 -- no difference in the number of supervisory accounts -- could not be rejected for Holmes County. However, 47 percent of the Black farmers had supervisory accounts while only 29 percent of the White farmers had such accounts. This difference of 18 percentage points, while not large enough to test significantly different because of the small sample size, is large enough to raise serious concern (Table 2).

Hypothesis Ho_5 -- no difference in the number of Blacks and Whites who are notified of FmHA programs -- was addressed by observing evidence of notification of the limited resource loan program and the loan set-aside program. The files of all farmers in the Holmes County sample showed that letters notifying applicants of these two programs were mailed to both Blacks and Whites at the same time. Thus Ho_5 is accepted -- there appears to be no difference, in the sample, in the number of Blacks and Whites who are notified of (certain) FmHA programs.

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TABLE 3

Distribution of Closing Dates on Operating Loans For Black and White Applicants, Holmes County, Mississippi, 1984-85

	Black Applicants						White Applicants					
Month in Which Closing Occurred	Jan	Feb	Mar	Apr	May	Jun	Jan	Feb	Mar	Apr	May	Jun
No of loans closed	0	1	3	6	6	0	0	3	1	9	5	0
Cumulative No. of loans closed	0	1	4	10	16	0	0	3	4	13	18	0
Cumulative percent	0	6	25	62	100	0	0	17	22	72	100	0

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The rejection rate for FmHA loans was 2.25 times higher for Blacks (27 percent) than for Whites (12 percent, Table 2). This 15 percentage point difference, while not large enough to test significantly different because of the small sample size, is large enough to raise serious concern about the validity of accepting hypothesis H_{06}.

Summary, Conclusions and Recommendations

Numerous complaints of discrimination in FmHA loan programs prompted this staff inquiry. Previous work by the United States Commission on Civil Rights documented the alarming decline in the number of Black farmers in America and uncovered indications of racial discrimination in the administration of FmHA programs.

The staff study resulted in statistical tests of hypotheses concerning: processing time for loans by race; dates when loan money is received by race; interest rates paid by race; the frequency of supervisory accounts by race; the timeliness of program notification by race; and the loan rejection rate by race.

Because of limited staff resources small samples from only two southern counties -- Bladen County, North Carolina and Holmes County, Mississippi -- were used to test hypotheses. When small samples are used to test hypotheses, significance criteria become very stringent. Thus, in order to conclude that there are significant differences in treatment of Blacks and Whites in FmHA programs, observed differences in the sample have to be quite large.

Against these stringent criteria no significant differences for any of the hypotheses were found in the sample for Bladen County, North Carolina. In striking contrast, in Holmes County, Mississippi it took longer (109 days) to process Black applicants' loans than White applicants' loans (82 days). Also, Blacks in the sample for Holmes County were observed to have a much higher percent of

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supervisory accounts (47 versus 29 percent) and a much higher percent of loan rejections (27 versus 12 percent) than Whites.

Based on these statistical findings the staff working group concluded that there may be serious racial discrimination occuring in the administration of FmHA loan programs in Holmes County, Mississippi. Consequently, the staff recommends that the Office of the Inspector General of the United States Department of Agriculture be directed to conduct a complete investigation, including but not limited by, the hypotheses tested in this report, of every loan applicant in the following counties: Holmes County, Mississippi; Bladen County, North Carolina; and Tarol County, Georgia. Holmes County is selected because of the problems revealed by this study. Bladen and Tarol Counties are selected to provide a more complete picture of potential discrimination across the South and to provide a point of comparison for Holmes County, Mississippi.

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Appendix Table 1

NUMBER OF FARMERS IN SOUTHERN STATES BY RACE, 1978 AND 1982

	1978				1982				Change From 1978 to 1982			
	White		Black		White		Black		White		Black	
	#	%	#	%	#	%	#	%	#	%	#	%
Alabama	47573	94	3143	6	45635	94	2759	6	-1938	-4	- 384	-12
Arkansas	50063	97	1559	3	49157	97	1249	2	- 906	-2	- 310	-20
Delaware	3324	98	42	1	3279	98	32	1	- 45	-1	- 10	-24
Florida	34939	97	999	3	35366	97	835	2	+ 427	+1	- 164	-16
Georgia	48691	95	2648	5	47528	96	2068	4	-1163	-2	- 580	-22
Kentucky	101117	99	1028	1	100636	99	935	1	- 481	-0.5	- 93	- 9
Louisiana	29353	94	1934	6	29677	94	1888	6	+ 324	+1	- 46	- 2
Maryland	14932	96	564	4	15581	96	551	3	+ 649	+4	- 13	- 2
Mississippi	39038	89	4996	11	37584	89	4802	11	-1454	-4	- 194	- 4
North Carolina	74740	91	5820	7	67440	93	4413	6	-7300	-10	-1407	-24
Oklahoma	69765	97	775	1	69774	96	795	1	+ 9	+0.01	+ 22	+ 3
South Carolina	22907	86	3773	14	21759	87	3147	13	-1148	-5	- 626	-17
Tennessee	85084	98	1754	2	88893	98	1598	2	+3809	+4	- 156	- 9
Texas	170457	97	3066	2	179587	97	3292	2	+9130	+5	+ 226	+ 7
Virginia	46778	94	3075	6	49087	95	2728	5	+2309	+5	- 347	-11
West Virginia	17423	99	33	0.2	18688	99	29	0.2	+1265	+7	- 4	-12

Source: U.S. Department of Commerce, Bureau of the Census. Percents do not necessarily add to 100.

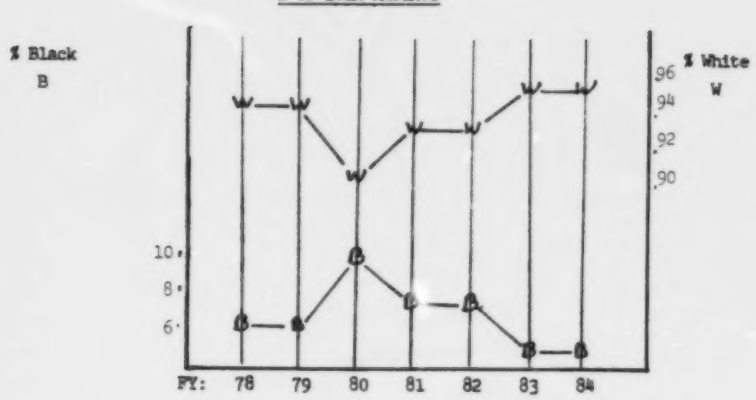
Appendix Table 2a

Dollar Amount (& Percent) of FmHA Operating Loans Made to Farmers, by Race, 1978- 1984*/

ALABAMA

FISCAL YEAR	WHITE TOTAL $ AMOUNT	WHITE PERCENT	BLACK TOTAL $ AMOUNT	BLACK PERCENT	TOTAL $ AMOUNT
	(000)		(000)		(000)
1978	15,247	94	994	6	16,241
1979	16,934	94	1,072	6	18,006
1980	19,237	90	2,099	10	21,336
1981	17,698	93	1,307	7	19,005
1982	16,821	93	1,213	7	18,034
1983	37,552	95	1,857	5	39,409
1984	45,769	95	2,409	5	48,178

*/ Source: John W. Helmuth, Chief Economist, Committee on Small Business, U.S. House of Representatives; derived from data provided by Farmers Home Administration, USDA, Report Code 691.



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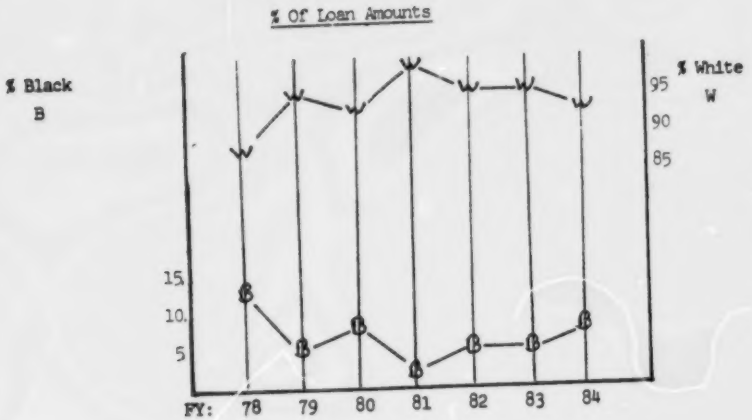
Appendix Table 2b

Dollar Amount (& Percent) of FmHA Operating Loans Made to Farmers, by Race, 1978- 1984*/

ARKANSAS

FISCAL YEAR	WHITE TOTAL $ AMOUNT	WHITE PERCENT	BLACK TOTAL $ AMOUNT	BLACK PERCENT	TOTAL $ AMOUNT
	(000)		(000)		(000)
1978	20,848	87	3,155	13	24,003
1979	22,037	95	1,272	5	23,309
1980	22,321	93	1,803	7	24,124
1981	22,081	97	668	3	22,749
1982	36,549	95	1,822	5	38,371
1983	69,366	95	4,021	5	73,387
1984	76,236	93	5,827	7	32,063

*/ Source; John W. Helmuth, Chief Economist, Committee on Small Business, U.S. House of Representatives; derived from data provided by Farmers Home Administration, USDA, Report Code 691.



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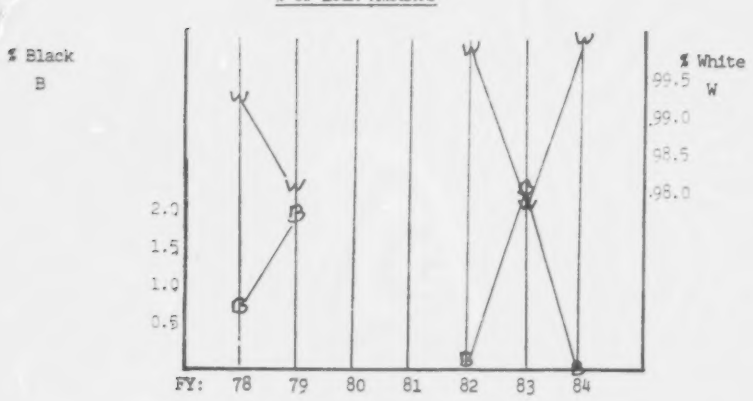
Appendix Table 2c

Dollar Amount (& Percent) of FmHA Operating Loans Made to Farmers, by Race, 1978- 1984*/

DELAWARE

FISCAL YEAR	WHITE TOTAL $ AMOUNT	WHITE PERCENT	BLACK TOTAL $ AMOUNT	BLACK PERCENT	TOTAL $ AMOUNT
	(000)		(000)		(000)
1978	1,238	99.30	9	0.70	1,247
1979	1,231	98.00	25	2.00	1,256
1980	0	0	0	0	0
1981	0	0	0	0	0
[illegible]	1,740	99.95	1	0.05	1,741
1983	1,310	97.90	28	2.10	1,338
1984	1,526	100.00	0	0	1,526

*/ Source: John W. Helmuth, Chief Economist, Committee on Small Business, U.S. House of Representatives; derived from data provided by Farmers Home Administration, USDA, Report Code 691.



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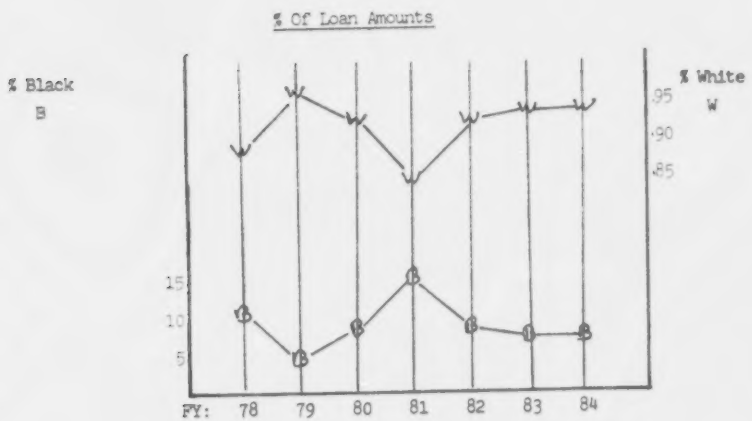
Appendix Table 2d

Dollar Amount (& Percent) of FmHA Operating Loans Made to Farmers, by Race, 1978- 1984*/

FLORIDA

FISCAL YEAR	WHITE TOTAL $ AMOUNT	WHITE PERCENT	BLACK TOTAL $ AMOUNT	BLACK PERCENT	TOTAL $ AMOUNT
	(000)		(000)		(000)
1978	13,074	89	1,545	11	14,619
1979	14,379	95	746	5	15,125
1980	12,261	92	1,025	8	13,286
1981	11,568	85	2,101	15	13,670
1982	12,359	92	1,110	8	13,469
1983	15,681	93	1,160	7	16,841
1984	12,607	93	938	7	13,545

*/ Source: John W. Helmuth, Chief Economist, Committee on Small Business, U.S. House of Representatives; derived from data provided by Farmers Home Administration, USDA, Report Code 691.



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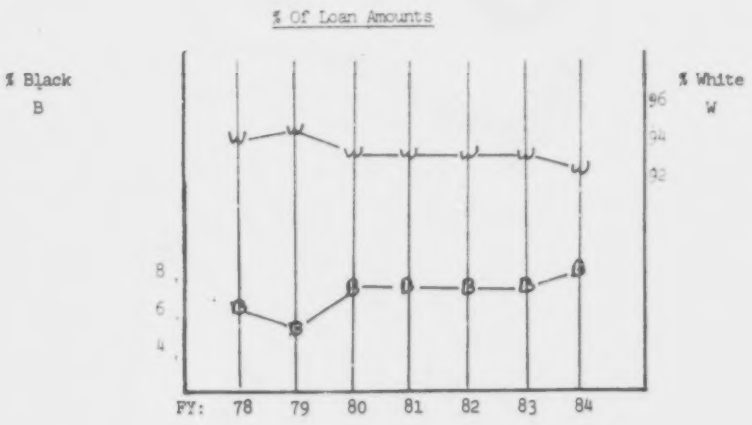
Appendix Table 2e

Dollar Amount (& Percent) of FmHA Operating Loans Made to Farmers, by Race, 1978- 1984*/

GEORGIA

FISCAL YEAR	WHITE TOTAL $ AMOUNT	WHITE PERCENT	BLACK TOTAL $ AMOUNT	BLACK PERCENT	TOTAL $ AMOUNT
	(000)		(000)		(000)
1978	20,031	94	1,241	6	21,272
1979	27,681	95	1,571	5	29,252
1980	27,700	93	2,005	7	29,705
1981	27,319	93	2,102	7	29,421
1982	32,064	93	2,352	7	34,416
1983	67,285	93	5,232	7	72,517
1984	68,026	92	6,118	8	74,144

*/ Source: John W. Helmuth, Chief Economist, Committee on Small Business, U.S. House of Representatives; derived from data provided by Farmers Home Administration, USDA, Report Code 691.



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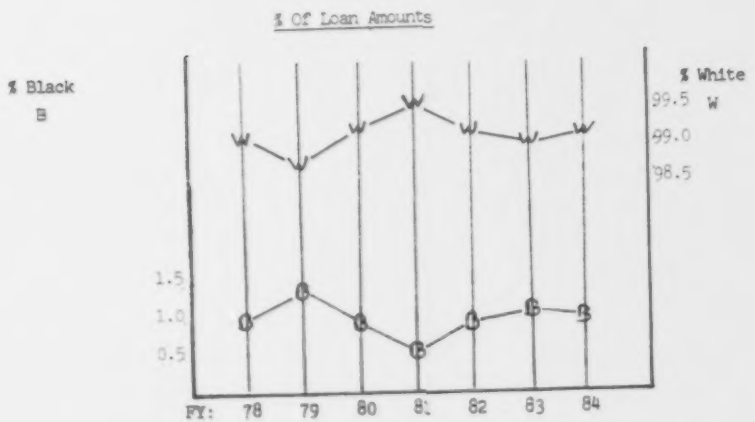
Appendix Table 2f

Dollar Amount (& Percent) of FmHA Operating Loans Made to Farmers, by Race, 1978- 1984*/

KENTUCKY

FISCAL YEAR	WHITE		BLACK		TOTAL $ AMOUNT
	TOTAL $ AMOUNT	PERCENT	TOTAL $ AMOUNT	PERCENT	
	(000)		(000)		(000)
1978	17,041	99.1	152	0.9	17,193
1979	22,436	98.7	291	1.3	22,727
1980	22,061	99.2	189	0.8	22,250
1981	19,633	99.5	91	0.5	19,724
1982	33,589	99.2	254	0.8	33,843
1983	48,370	99.0	491	1.0	48,861
1984	58,352	99.1	524	0.9	58,876

*/ Source: John W. Helmuth, Chief Economist, Committee on Small Business, U.S. House of Representatives; derived from data provided by Farmers Home Administration, USDA, Report Code 691.



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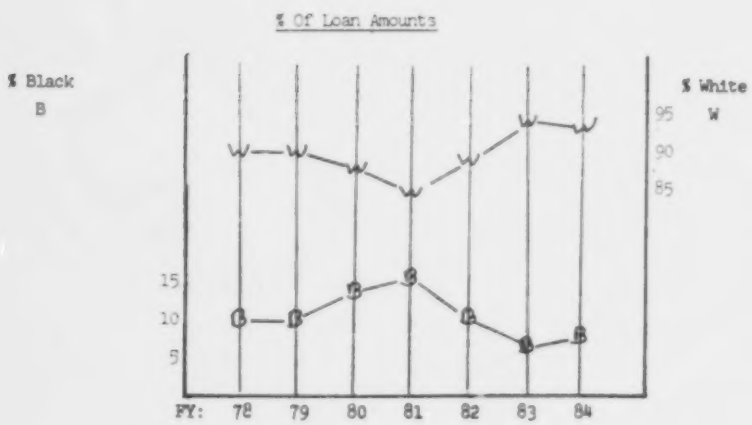
Appendix Table 2g

Dollar Amount (& Percent) of FmHA Operating Loans Made to Farmers, by Race, 1978- 1984*/

LOUISIANA

FISCAL YEAR	WHITE TOTAL $ AMOUNT	WHITE PERCENT	BLACK TOTAL $ AMOUNT	BLACK PERCENT	TOTAL $ AMOUNT
	(000)		(000)		(000)
1978	41,794	90	4,652	10	46,446
1979	39,838	90	4,231	10	44,069
1980	34,715	87	5,184	13	39,898
1981	37,832	85	6,820	15	44,652
1982	55,122	90	6,344	10	61,466
1983	91,795	94	6,298	6	98,093
1984	102,429	93	7,723	7	110,152

*/ Source: John W. Helmuth, Chief Economist, Committee on Small Business, U.S. House of Representatives; derived from data provided by Farmers Home Administration, USDA, Report Code 691.



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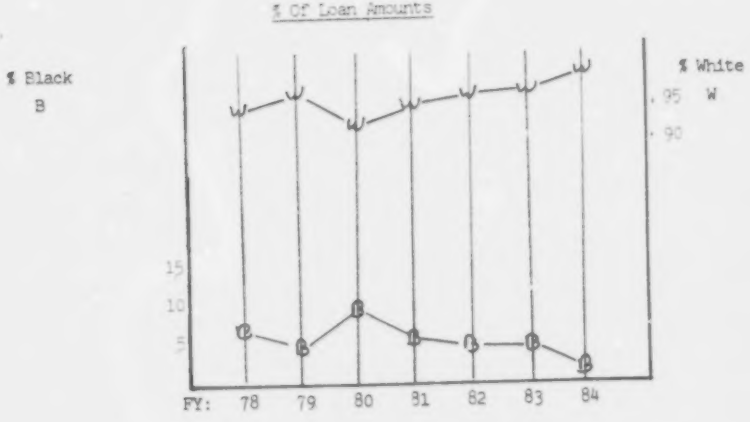
Appendix Table 2h

Dollar Amount (& Percent) of FmHA Operating Loans Made to Farmers, by Race, 1978- 1984*/

MARYLAND

FISCAL YEAR	WHITE TOTAL $ AMOUNT	WHITE PERCENT	BLACK TOTAL $ AMOUNT	BLACK PERCENT	TOTAL $ AMOUNT
	(000)		(000)		(000)
1978	4,508	94	300	6	4,808
1979	6,374	96	234	4	6,608
1980	4,724	92	416	8	5,140
1981	4,799	95	269	5	5,068
1982	5,846	96	225	4	6,071
1983	4,470	96	168	4	4,638
1984	5,328	98	104	2	5,432

*/ Source: John W. Helmuth, Chief Economist, Committee on Small Business, U.S. House of Representatives; derived from data provided by Farmers Home Administration, USDA, Report Code 691.



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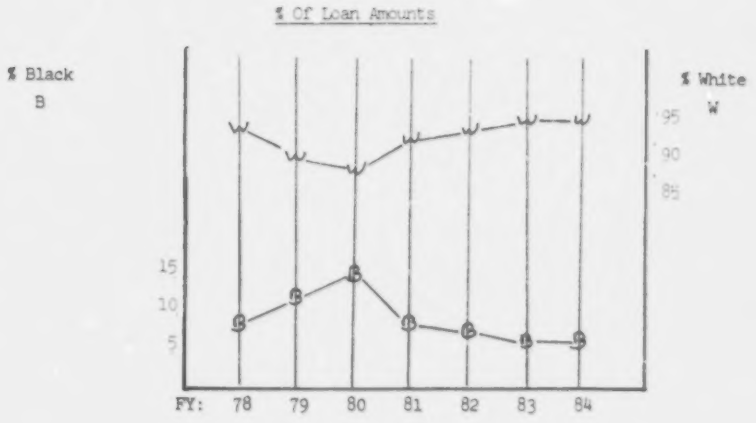
Appendix Table 2i

Dollar Amount (& Percent) of FmHA Operating Loans Made to Farmers, by Race, 1978- 1984*/

MISSISSIPPI

FISCAL YEAR	WHITE TOTAL $ AMOUNT	WHITE PERCENT	BLACK TOTAL $ AMOUNT	BLACK PERCENT	TOTAL $ AMOUNT
	(000)		(000)		(000)
1978	29,507	93	2,203	7	31,710
1979	25,199	89	3,120	11	28,319
1980	27,870	87	4,237	13	32,107
1981	30,095	92	2,453	8	32,548
1982	42,567	93	3,181	7	45,748
1983	66,917	94	4,082	6	70,999
1984	86,346	94	5,504	6	91,850

*/ Source: John W. Helmuth, Chief Economist, Committee on Small Business, U.S. House of Representatives; derived from data provided by Farmers Home Administration, USDA, Report Code 691.



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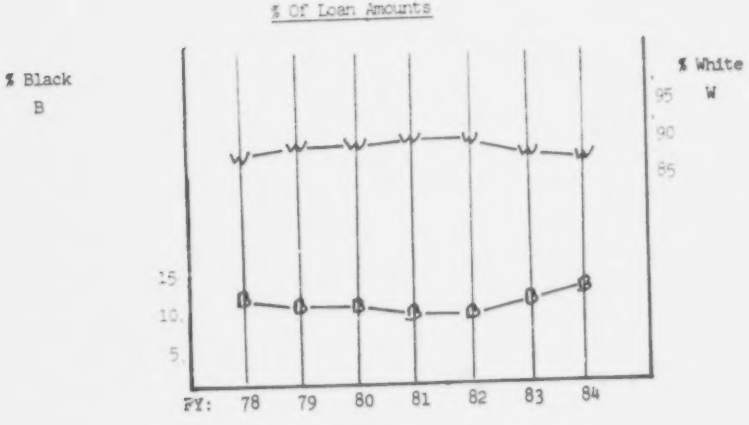
Appendix Table 2j

Dollar Amount (& Percent) of FmHA Operating Loans Made to Farmers, by Race, 1978- 1984*/

NORTH CAROLINA

FISCAL YEAR	WHITE TOTAL $ AMOUNT (000)	WHITE PERCENT	BLACK TOTAL $ AMOUNT (000)	BLACK PERCENT	TOTAL $ AMOUNT (000)
1978	33,046	88	4,446	12	37,492
1979	38,803	89	4,789	11	43,592
1980	34,723	89	4,336	11	39,059
1981	31,228	90	3,610	10	34,838
1982	39,721	90	4,287	10	44,008
1983	51,089	88	7,011	12	58,100
1984	64,060	87	9,439	13	73,499

*/ Source: John W. Helmuth, Chief Economist, Committee on Small Business, U.S. House of Representatives; derived from data provided by Farmers Home Administration, USDA, Report Code 691.



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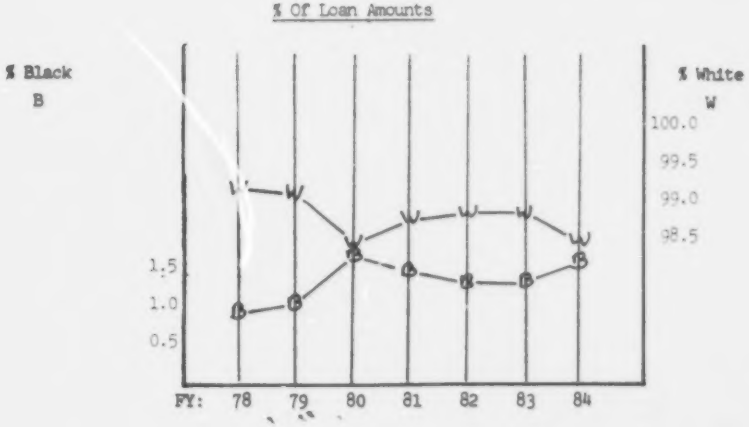
Appendix Table 2k

Dollar Amount (& Percent) of FmHA Operating Loans Made to Farmers, by Race, 1978- 1984*/

OKLAHOMA

FISCAL YEAR	WHITE TOTAL $ AMOUNT	WHITE PERCENT	BLACK TOTAL $ AMOUNT	BLACK PERCENT	TOTAL $ AMOUNT
	(000)		(000)		(000)
1978	25,903	99.1	231	0.9	26,134
1979	28,643	99.0	303	1.0	28,946
1980	26,069	98.4	414	1.6	26,483
1981	24,638	98.7	319	1.3	24,957
1982	35,580	98.8	420	1.2	36,000
1983	60,543	98.8	712	1.2	61,255
1984	61,308	98.5	908	1.5	62,216

*/ Source: John W. Helmuth, Chief Economist, Committee on Small Business, U.S. House of Representatives; derived from data provided by Farmers Home Administration, USDA, Report Code 691.



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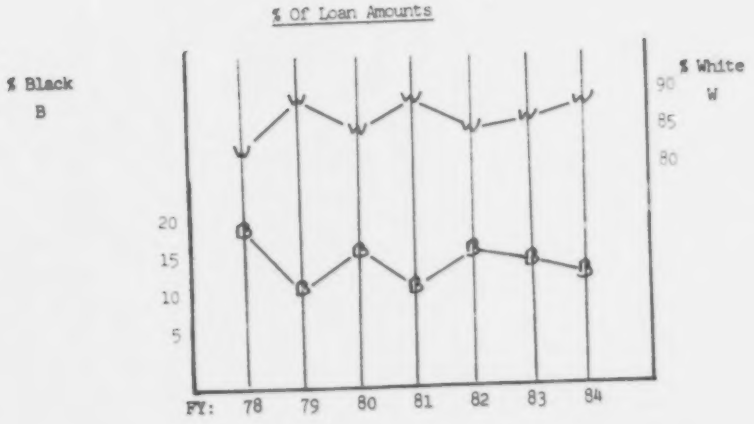
Appendix Table 21

Dollar Amount (& Percent) of FmHA Operating Loans Made to Farmers, by Race, 1978- 1984*/

SOUTH CAROLINA

FISCAL YEAR	WHITE TOTAL $ AMOUNT (000)	WHITE PERCENT	BLACK TOTAL $ AMOUNT (000)	BLACK PERCENT	TOTAL $ AMOUNT (000)
1978	9,718	82	2,147	18	11,865
1979	15,263	89	1,953	11	17,216
1980	13,925	85	2,542	15	16,467
1981	11,533	89	1,381	11	12,914
1982	16,588	85	3,012	15	19,600
1983	28,952	86	4,647	14	33,599
1984	29,111	87	4,182	13	33,293

*/ Source: John W. Helmuth, Chief Economist, Committee on Small Business, U.S. House of Representatives; derived from data provided by Farmers Home Administration, USDA, Report Code 691.



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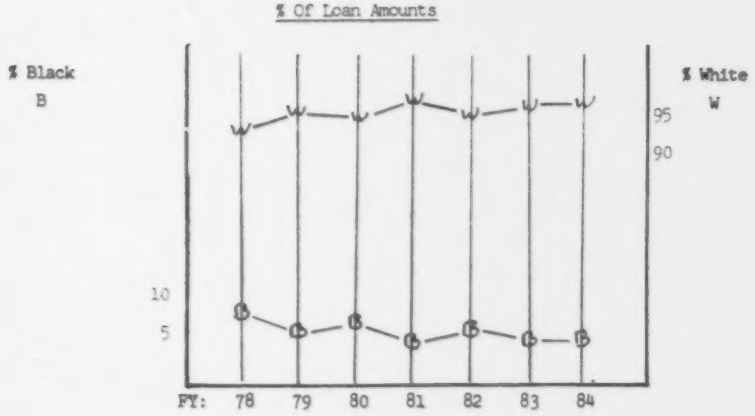
Appendix Table 2m

Dollar Amount (& Percent) of FmHA Operating Loans Made to Farmers, by Race, 1978- 1984*/

TENNESSEE

FISCAL YEAR	WHITE TOTAL $ AMOUNT	WHITE PERCENT	BLACK TOTAL $ AMOUNT	BLACK PERCENT	TOTAL $ AMOUNT
	(000)		(000)		(000)
1978	10,895	93	809	7	11,704
1979	16,578	95	922	5	17,500
1980	19,339	94	1,164	6	20,503
1981	20,051	96	776	4	20,827
1982	41,194	95	1,965	5	43,159
1983	53,520	96	2,266	4	55,786
1984	49,068	96	1,977	4	51,045

*/ Source: John W. Helmuth, Chief Economist, Committee on Small Business, U.S. House of Representatives; derived from data provided by Farmers Home Administration, USDA, Report Code 691.



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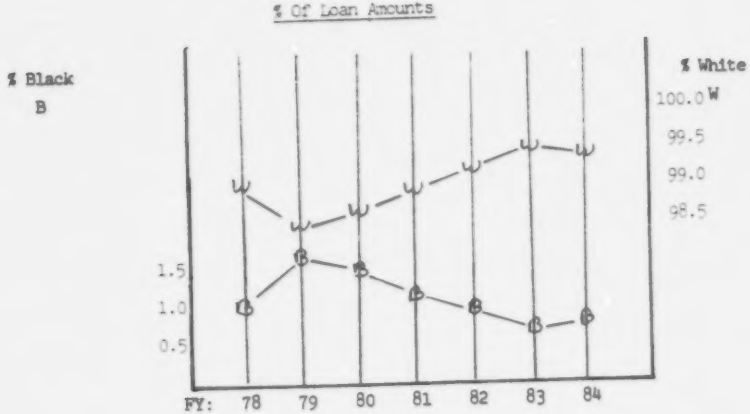
Appendix Table 2n

Dollar Amount (& Percent) of FmHA Operating Loans Made to Farmers, by Race, 1978- 1984*/

TEXAS

FISCAL YEAR	WHITE TOTAL $ AMOUNT	WHITE PERCENT	BLACK TOTAL $ AMOUNT	BLACK PERCENT	TOTAL $ AMOUNT
	(000)		(000)		(000)
1978	76,469	99.0	794	1.0	77,263
1979	69,343	98.4	1,099	1.6	70,442
1980	70,394	98.6	1,030	1.4	71,424
1981	75,277	98.9	848	1.1	76,125
1982	100,261	99.1	860	0.9	101,121
1983	163,611	99.4	1,011	0.6	164,622
1984	182,258	99.3	1,312	0.7	183,570

*/ Source: John W. Helmuth, Chief Economist, Committee on Small Business, U.S. House of Representatives; derived from data provided by Farmers Home Administration, USDA, Report Code 691.



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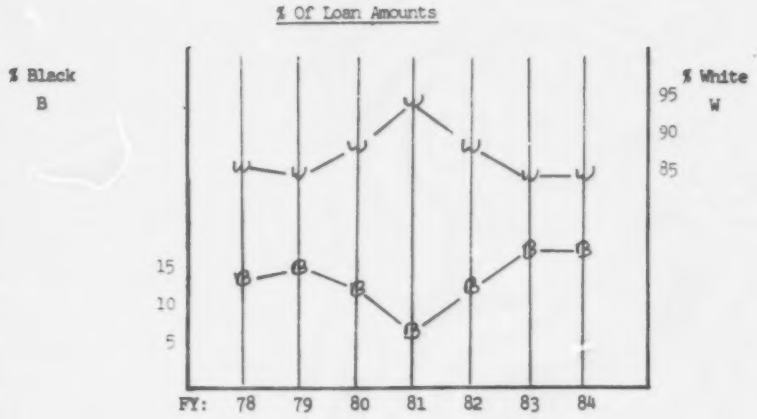
Appendix Table 2o

Dollar Amount (& Percent) of FmHA Operating Loans Made to Farmers, by Race, 1978- 1984*/

VIRGINIA

FISCAL YEAR	WHITE TOTAL $ AMOUNT	WHITE PERCENT	BLACK TOTAL $ AMOUNT	BLACK PERCENT	TOTAL $ AMOUNT
	(000)		(000)		(000)
1978	9,454	86	1,563	14	11,017
1979	13,363	85	2,298	15	15,661
1980	11,872	88	1,663	12	13,535
1981	10,088	94	695	6	10,783
1982	10,545	88	1,461	12	12,006
1983	13,724	84	2,548	16	16,272
1984	17,632	84	3,442	16	21,074

*/ Source: John W. Helmuth, Chief Economist, Committee on Small Business, U.S. House of Representatives; derived from data provided by Farmers Home Administration, USDA, Report Code 691.



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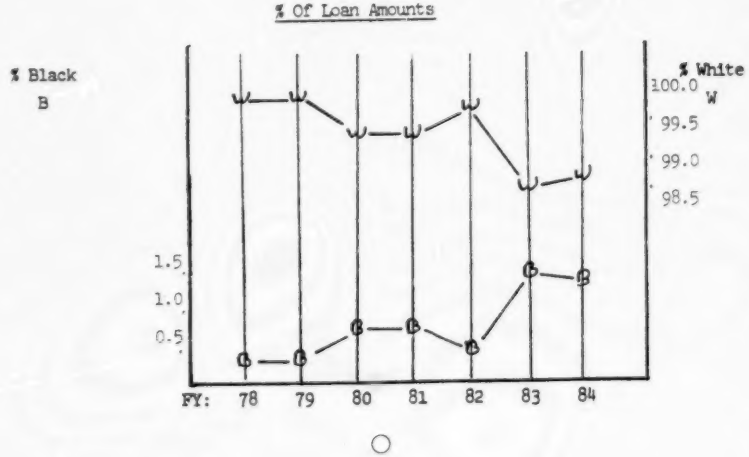
Appendix Table 2p

Dollar Amount (& Percent) of FmHA Operating Loans Made to Farmers, by Race, 1978- 1984*/

WEST VIRGINIA

FISCAL YEAR	WHITE		BLACK		TOTAL $ AMOUNT
	TOTAL $ AMOUNT	PERCENT	TOTAL $ AMOUNT	PERCENT	
	(000)		(000)		(000)
1978	3,296	99.8	6	0.2	3,302
1979	5,140	99.8	8	0.2	5,148
1980	6,481	99.4	40	0.6	6,521
1981	6,393	99.4	36	0.6	6,429
1982	4,452	99.7	13	0.3	4,465
1983	3,962	98.6	55	1.4	4,017
1984	4,075	98.7	55	1.3	4,130

*/ Source: John W. Helmuth, Chief Economist, Committee on Small Business, U.S. House of Representatives; derived from data provided by Farmers Home Administration, USDA, Report Code 691.



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